Nation's Business

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JULY 1959

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Nation's Business

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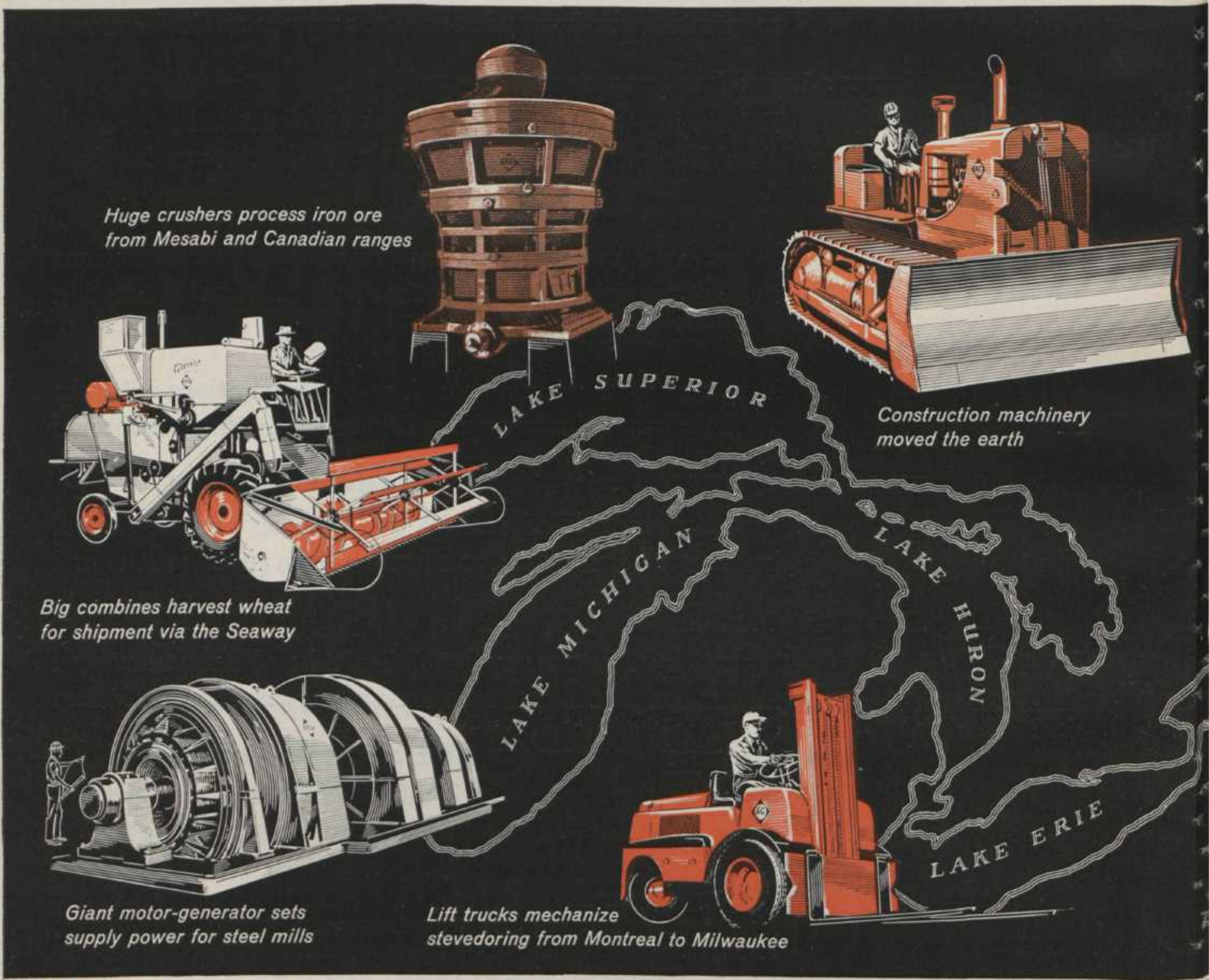
St. Lawrence Seaway...story of



The long-awaited St. Lawrence Seaway is now open — an historic achievement by men of vision, courage and skill in both the United States and Canada. The grain of the Dakotas and Saskatchewan, the factories of the lake states and provinces are nearer markets all over the world. Allis-Chalmers products are in use over the entire length of the Seaway, serving business, industry and agriculture of both nations. Allis-Chalmers, Milwaukee 1, Wisconsin.

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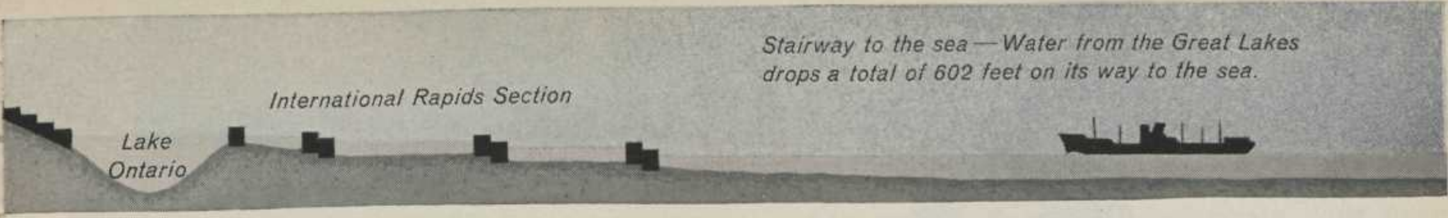
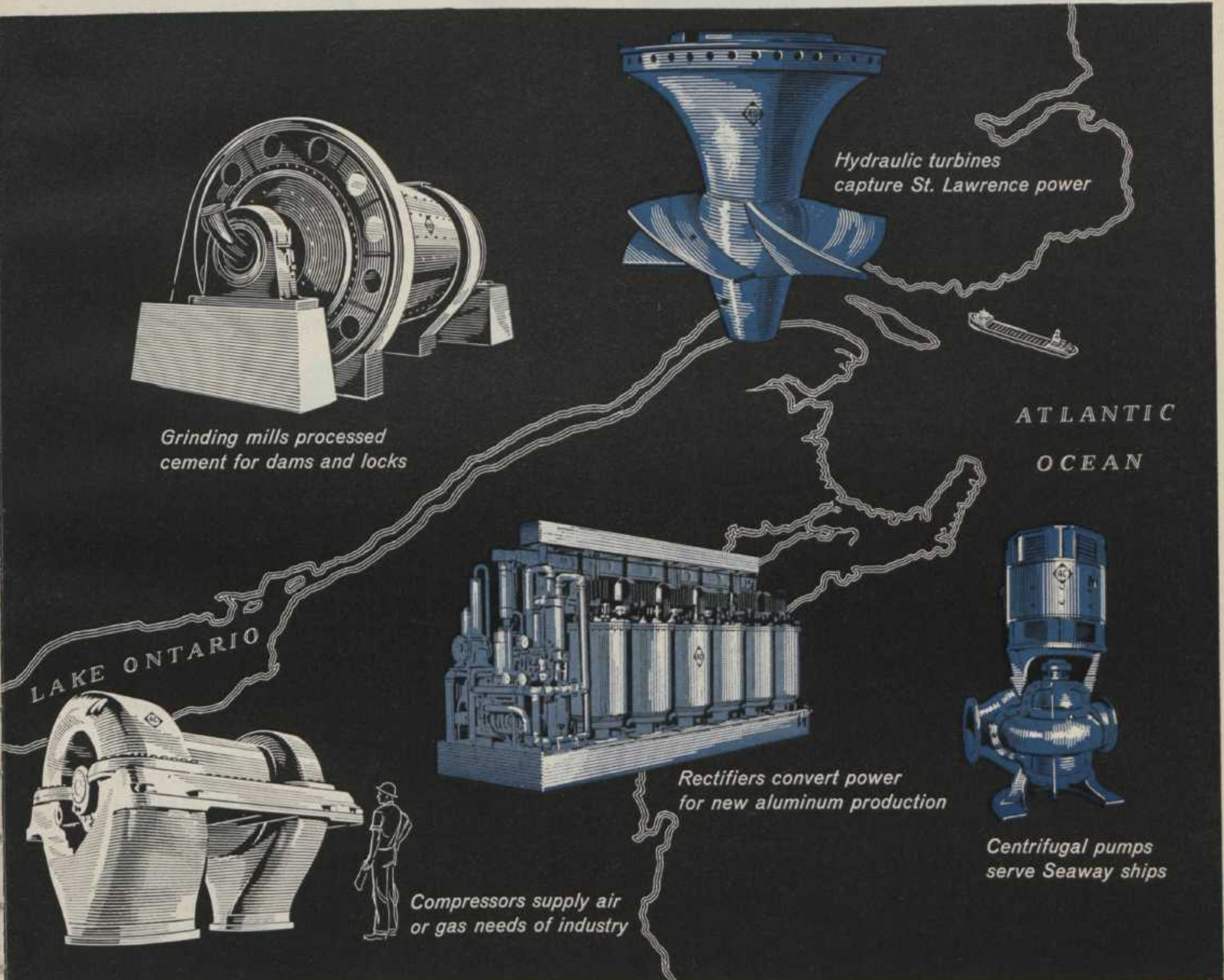


Allis-Chalmers products at work



Dramatic as it is, the St. Lawrence Seaway spotlights only part of Allis-Chalmers partnership with industry. The wide range of our products is unique in all America . . . motors from 1 to 120,000 horsepower . . . pumps that handle from 10 gallons to 2 million gallons per minute . . . rock crushers that gobble boulders up to 5 feet wide . . . tractors for family-size farms or multi-million-yard earth-moving projects . . . electrical generating equipment (diesel, hydraulic, steam or atomic-powered) . . . and hundreds of others. An interesting new full-color booklet that tells more about our company is now available. We invite you to send for it.

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management's WASHINGTON LETTER

▶BUSINESS LOOKS GOOD to businessmen.

Nation's Business asked top executives in large and small companies to look 12 months ahead.

Here's what majority see:

Rising sales, relatively stable prices, more jobs.

Views of men with larger companies tally well with estimates made by smaller company executives.

What worries businessmen about the future?

Their answer:

Many things, but nothing sufficient to shake their underlying faith in good business ahead.

Among their worries:

High taxes, inflation, pressure on costs, how to increase efficiency to absorb higher costs of labor, maintaining profit margins, meeting competition more effectively.

▶MANY COMPANIES ARE DIETING to hold down operational fat--despite boom.

Nation's Business survey shows:

Executives replying from companies of all sizes say cost-cutting efforts during next 12 months will be stepped up.

Efforts will be more vigorous than during the '57-'58 downturn, many say.

Cost-cutting drive reflects industry's concern over how to maintain profit margins.

As wage pressures force costs up, management looks for ways to protect profits.

Elimination of unnecessary expense is one answer.

▶HOW CAN COSTS be cut?

About half of the executives answering Nation's Business poll say they plan to institute new cost-reduction programs in 12 months ahead.

Here are programs most mentioned:

New and improved machinery.

Internal budgeting, bookkeeping controls.

Economies in packaging.

Plant changes, plant consolidation, relocation.

Procedures analysis.

Tighter control of selling costs.

Note: Answers to questions on cost-cutting show growing management interest in efficiencies of electronic data processing equipment, automation generally.

Other survey details on page 36.

▶PLAN YOUR PART in the boom.

That's revealing article starting on page 38.

Also see:

Formula for improving sales, page 68.

▶PAST YEAR'S PROFIT DROUGHT can affect amount of cash you have in final half of this year.

Here's how:

You can base third and fourth quarter tax payments on your estimate of current earnings--or '58 profit experience.

Since '58 profits were low, Treasury is looking for many businesses to make payments on past-year basis.

That means:

Up to an estimated \$3.5 billion in taxes can be paid in early '60 instead of late '59.

▶FEDERAL REVENUE ESTIMATES for fiscal year just starting will move up.

You've already heard good business will bring in about \$600 million more than earlier \$77.1 billion estimate.

But government economists are taking another look (official estimate will be revised in September).

Here's what they see:

Personal income will total about \$374 billion for calendar '59, bring in about \$40.7 billion in income taxes.

That figure looks good, analysts say.

Corporate profits of \$47 billion were expected to bring in \$21.5 billion.

That figure's proving out too low.

Profits are probably going to total about \$50 billion. So business will pay more taxes.

Excise taxes will bring in about \$9 billion, other receipts \$6 billion.

On balance:

You can expect at least \$78 billion federal tax collections for year ahead, maybe more.

▶GOVERNMENT SPENDING for year ahead?

It'll rise, too.

Example is interest payments on big federal debt.

Debt's about \$286 billion. Interest

cost was formerly estimated at $8.1 billion, but Treasury officials think now that interest will rise about $500 million, maybe more.

That means interest payments will be about $1 billion higher in fiscal '60 than year just ended.

Other costs, too, will rise.

Budget balance is officially estimated with $70 million surplus.

Allowing for revenue rise, expenditures rise, budget balance will be close--if there's a balance at all.

Note: Fiscal '59 has just ended with $12.5 billion deficit.

▶LOOK FOR GROWTH to dominate economic news coming out of Washington in months ahead.

Of growing importance is the debate shaping up among politicians, economists and others about how fast our economy can or should be growing.

Eight to 10 special reports on economic issues will be coming soon from Cabinet Committee on Price Stability for Economic Growth headed by Vice President Richard Nixon.

Reports will cover such things as:

How to boost worker productivity, how higher rate of economic growth can be achieved, monetary and fiscal policies, other economic subjects.

Watch, too, Congress' Joint Economic Committee, headed by Sen. Paul Douglas.

Special economic reports and studies will be issued from time to time.

Discussions are sure to influence government economic policies for years.

Steps taken to boost economic growth would have far-reaching implications for all levels of business.

What's at stake, probabilities for a higher growth rate for years to come are explained on page 54.

▶WANTED: MILLIONS for part-time work.

Opportunities for advancement are wide open.

The job?

Politics.

Now that businessmen are becoming interested in political participation, both parties are getting ready to make a strong pitch for their services.

Republicans want 2 million precinct workers.

Democrats also welcome businessmen's energies, money for upcoming political battle of '60.

Are you one of the growing number of businessmen with mounting interest in political participation?

Want to know how you can get started in politics, what you can do?

Here's your answer:

Increasing political participation by businessmen as individuals is subject of a special training course prepared by U. S. Chamber of Commerce.

Management personnel everywhere are beginning to take advantage of this training material.

▶ONE COMPANY LOOKED CAREFULLY at all available political training programs (40 separate packages), then ordered the Chamber's course material.

Says Ab Hermann, executive director of Republican National Committee:

"The 'Action Course in Practical Politics' is the best thing of its kind I have ever seen.

"It should be very effective in getting businessmen active in politics--if they will use it."

Says Drexel Sprecher, deputy chairman, Democratic National Committee:

"The workmanship which has gone into these instruction materials is obviously of top quality."

AFL-CIO's Committee on Political Education also ordered a dozen copies to add to its own extensive training program.

United Steelworkers' director of education says:

"I have gone through it very carefully and feel that it is an excellently prepared job.

"I believe that all persons should be involved in politics...and should...be concerned with electing the right person to handle our public affairs."

If you're interested, details of the Chamber's program are available from Business Relations Department, U. S. Chamber, Washington 6, D. C.

In this issue see "How Unions Elect Their Friends" on page 31.

▶CAN UNIONS MIX POLITICS with compulsory union membership?

Georgia Supreme Court says no.

North Carolina Supreme Court says yes.
Basic issue is:
Whether workers, in order to hold their jobs, may be forced to pay union dues and assessments at least a part of which are used by unions to support political candidates and views with which workers may not agree.
Unions involved admit that part of dues goes for political spending.
Outcome before U. S. Supreme Court will have this meaning:
If Georgia court's view is upheld, unions will have to give up compulsory union membership contracts or curtail political activities.

▶PROSPECTS FOR LABOR reform bill are changing.
Anything can happen this month.
But informed Capitol Hill guess is:
Don't count on Congress to pass reform legislation this year without stronger public support.
Note AFL-CIO switch.
The big labor organization supported the original Kennedy bill, but now feels that the Senate-passed version goes too far with its bill of rights for union members.
Union leaders want proposal killed in the House.
Most business organizations, Eisenhower Administration, and others favor stronger bill to cope more effectively with such major problems as secondary boycotts and blackmail picketing.

▶THIS MONTH WILL MARK a milestone in U. S. shipbuilding.
World's first nuclear-powered freighter, the NS Savannah, will go down the ways July 21 at Camden, N. J.
Uncle Sam's paying for it.
It'll cost $30 million.
The Savannah will make trial runs this year, enter regular service early in '60 under management of States Marine Co.
Note: Atom-driven freighter will be launched at time when U. S. shipbuilding yards are embarked on largest peacetime building effort.
Industry plans to replace 276 cargo and passenger vessels by 1970.
Total cost is estimated at more than $4 billion.

▶MOVEMENT OF OIL under polar ice cap is coming nearer.
U. S. Maritime Administration in Washington is working toward construction of 20,000-ton deadweight, 20-knot cargo-tanker submarine.
Vessel would be designed for service at North Pole, would be prototype of a fleet of tanker subs.
Electric Boat Division of General Dynamics Corporation has been awarded contract to construct pilot model.

▶AMERICA COULD HAVE 350 million people by year 2000--just 41 years from now.
This estimate is an extension of current population trends worked out by specialists.
Trend is rich with significance for you and your business. It means:
Growing, changing markets, shifts in the work force, new geographical concentrations of people, far-reaching changes for all levels of government.
It also means new problems of social and economic nature--and much more.
For a useful report on outlook for America's population, write Population Reference Bureau, 1507 M Street, N. W., Washington 5, D. C.
Single issue price: 50 cents.
(But single copies are free to businessmen who mention NATION'S BUSINESS.)

▶MEASURE OF HOW TIMES CHANGE:
Largest sum of money in circulation today is in $20 bills.
Twenty years ago first place went to $10 bills.
U. S. has nearly $10 million worth of $20 bills circulating today compared with $1.6 million worth 20 years ago.
There are about $6.4 million worth of $10 bills in use now compared with $1.8 million worth 20 years ago.

▶DEFENSE WORK fans out in many directions.
Look at the 2,000-mph B-70 and F-108 programs.
North American Aviation, Inc., is prime contractor.
But an estimated 20,000 companies are involved, supplying parts and services.
At program peak an estimated 80,000 people will be engaged in work on the B-70 and F-108.

Business opinion:

What freedom means

I HAVE READ with great satisfaction your "State of the Nation" message in the May issue of NATION'S BUSINESS. You have hit the nail on the head in the difference between freedom under communist government and freedom under the republic government of the United States.

Freedom under communism means that the state is free to do with its citizens what it pleases. Freedom under our republic means the freedom of the people to make their government what they please, within the rights guaranteed by the Constitution.

However, freedom in this republic of ours has been restricted by permitting the tax authorities to take from citizens by taxation what the communists are taking by appropriation—the life savings and the right of citizens to provide for themselves instead of the government's providing for them.

W. H. DAUM, *Pres.*
W. H. Daum & Staff
Los Angeles, Calif.

Meeting human needs

The trend toward "pass the work and worry to someone else, but support me in the style I'd like to become accustomed to" is only too noticeable an attitude everywhere. Unconsciously, it would seem that people regard government as a pseudo parent, and our present governmental trend is to spoil the child, coddle him and prevent him from growing—thereby maintaining ever increasing control.

We need more of the attitude expressed in your editorial (May), "Incentives, Not Subsidies, Meet Human Needs," if this nation is to continue to be one of self-governing free people. It is only under this free sort of framework that the mind can truly grow, create, explore and advance.

C. HEIDE
Portland, Oregon

Time is right

I have been noticing for some time that there is a movement afoot to get the income tax repealed, but until recently I thought that the time was not right and that others gen-


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erally did not realize what was happening to us.

The way to get rid of federal encroachment is to take the money away from those in Washington.

ROYCE A. OXFORD
Bridges & Oxford
Mission, Texas

Hot little hands

I seldom get a chance to read NATION'S BUSINESS because I work so far down the ladder that the only people who know I am around are my immediate boss and the payroll clerk.

Some careless Wheel let a May copy fall where I could get my lunch hooks on it. I slipped into the men's powder room and got a good start when the top banana's assistant came through like a little Hitler, screaming and yelling.

Would it be possible for me to buy a copy of the May issue?

I am willing to pay any price that I can scrape together for a copy to hold in my little hot hand as my very own.

Can do?

B. E. T.
Charlotte, N. C.

▸ Can do.

Useful

I find the magazine very informative in my work with the personnel here at the home office. I am sure that we will continue with the subscription for many years to come.

M. W. LINK, JR.
Government Personnel Mutual Life Insurance Company
San Antonio, Texas

I would like to tell you that I have never been sorry for my decision to subscribe to your magazine as it has contained a wealth of information that was very useful to me in my position. This is especially true of the articles on management.

D. D. MAGNAGHI
The Martin Co.
Pittsburgh, Pa.

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American Airlines
Tulsa, Okla.

We would appreciate your permission to reprint "How to be Believed" (April issue) in the *Illinois Optometric Journal*, the official publication of the Illinois Optometric Association.

DR. W. R. DALE, *Pres.*
Illinois Optometric Association
Olney, Ill.

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PRICES

Where the trends point now

Economists and business leaders weigh threat of more inflation

A NEW CYCLE of creeping inflation appears about to begin. That's the fear of a growing number of economists and businessmen.

For about a year, America has experienced the longest period of relative price stability on record.

If a new round of inflation materializes, its effects will be felt by all businesses, from the largest corporation to the smallest family-owned shop.

A good guess, according to those who deal daily with price trend data, is that the coming 12 months will see a rise of about two percentage points in the Consumer Price Index of the Bureau of Labor Statistics.

One indication of this expected increase is shown by the Wholesale Price Index, which normally runs ahead of changes in the CPI. Since last October, when the Wholesale Price Index began to inch upward, the rise has been more than one percentage point.

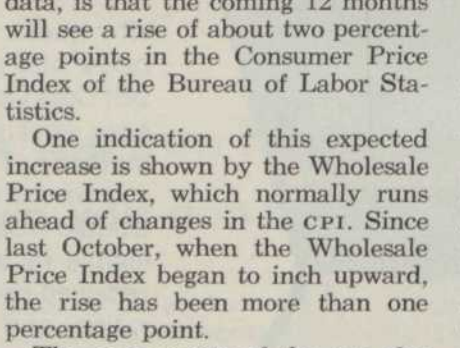
The components of the CPI also hint at a price rise. With no more than two tenths of one per cent change in any one month during the past year, the index for all items now is the same as it was last November and last July. For several months, however, the food index has been slipping and is now four percentage points below July of last year. The falling food index has balanced rises in other parts of the index for all items.

Here is how the other items are trending: Rent is two percentage points higher than a year ago; apparel is only two tenths of one per cent higher; transportation is up 6.2 percentage points; medical care is 6.5 points higher; personal care is up about 1.5 points; reading and recreation and all the other goods and services categories are approximately the same.

Price specialists point to these trends with the warning that creeping inflation is in fact going on now, if you omit food. The drop in the food index, even if it continues, which is unlikely beyond fall, may not for long be able to balance such increases as are occurring and are anticipated for other sectors of the price index. Many specialists in this field believe we have about reached the turning point and that the final half of 1959 will see the start of the next upswing.

Since 1947, which ended an inflation spurt, price increases have averaged about 2.5 per cent a year —or about two per cent if the jump caused by the Korean war is omitted. Prices rose even while the total economic activity sagged during early 1958.

As for the future, here are the



Consumer Price Index

1947-49=100

Price trends point upward. Prediction of specialists shows possibility of an increase in the Consumer Price Index of about two percentage points during the coming 12 to 18 months

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PRICE TRENDS
continued

comments of several men who are following trends closely:

"More than one sign has appeared," says George Champion, president of the Chase Manhattan Bank in New York, "that expectations of continued increases in prices are now permeating investor thinking and market psychology. The action of the stock market over recent months could be interpreted in that light.

"And it may not be without significance," he says, "that some fringe investment areas—farm real estate, and even works of art—are experiencing a boom of their own, apparently in anticipation of increases in the general price level years ahead."

These trends, of course, are important to businessmen. "Until the problem of inflation is licked," Mr. Champion says, "banks face the prospect of a squeeze from rising loan demands and restrictive Federal Reserve policies."

He interprets this as meaning that borrowers of all kinds are likely to encounter higher interest rates in the months ahead. The U. S. Treasury, attempting to roll over large issues of the $285 billion federal debt, is also likely to continue to find unreceptive markets.

"The bond markets," Mr. Champion says, "have already been discounting these pressures."

This, for businessmen, is tight money and Mr. Champion believes money will become tighter—one of the consequences of inflation.

Albert G. Hart, chairman of the Department of Economics at Columbia University, says inflationary symptoms are fairly numerous.

"All our broad indexes of product prices are climbing (though arrested just lately)," he says. "They show signs of being on a ratchet, with less and less slipback in recessions."

Money wage rates, he says, seem to outgrow productivity. Prices of stocks and real estate have climbed, with stock yields falling relative to bond yields.

H. C. Turner, Jr., president of the Turner Construction Company of New York, also believes America faces a further deterioration in the purchasing power of the dollar.

"In other words—inflation," he says. He blames the "power of labor to force wage increases that are greater than management can offset through improved productivity, and

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PRICE TRENDS
continued

public officials who do not have the courage to control public spending and to enact laws that will restrain the excessive power of labor."

George P. Hitchings, manager of the Economic Analysis Department of the Ford Motor Company, views inflation prospects with concern. "Unless costs are kept under better control in the future than they have been since 1951," he says, "the economy is likely to suffer from retarded economic growth."

He disagrees strongly with those who advocate a little inflation as either desirable or necessary for economic growth.

He thinks rising costs will impede progress toward the goal of maximum production, employment, and purchasing power.

"This is true," he says, "whether or not cost increases are fully reflected in prices. If cost increases are completely passed through to the customer, it is likely that customer demand will be less over the long run than with relatively stable aggregate cost-price levels. If cost increases are absorbed in part by lower profit margins, new capital investment upon which the economy depends for progress is likely to be adversely affected."

From 1951 to 1958, Mr. Hitchings points out, employe payrolls, excluding government and agriculture, rose 40 per cent; production rose only 16 per cent.

"This factor alone directly added $35 billion to the cost of production in 1958, compared with 1951," he says. "Excessive payroll increases also contributed indirectly to higher costs for depreciation, indirect business taxes and interest."

As for the future, Mr. Hitchings believes we "must abandon the philosophy that rising costs and prices are necessary or desirable."

Maximum production, employment, and purchasing power are not achieved by paying out a greater quantity of cheap dollars, he says.

"Until we recognize the necessity for holding general pay increases in proper relation to total production," Mr. Hitchings says, "we will continue along the path of cost inflation.

"Nothing will be gained for the country as a whole by excessive increases in pay rates and fringe benefits. On the contrary, we are likely to suffer from retarded growth in production, employment and purchasing power." END

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The state of the nation

By Felix Morley

Businessmen face politics or socialism

In politics, as certainly though not as immediately as in physics, every action tends to produce an equal and contrary reaction. So it will be natural if James R. Hoffa's intemperate talk of revolutionary general strikes should serve to stimulate the movement for more active business participation in political issues.

"We can call a primary strike all across the nation that will straighten out the employers for once and for all." Thus the teamsters' boss was quoted, as his response to argument for applying the principles of antitrust legislation to unions. Mr. Hoffa has since denied that he meant what those plain words appear to say. But this particular labor leader's record justifies the most serious attention to all his public observations, whether or not retracted on sober second thought. The McClellan Committee has amply revealed him as not less ruthless in deeds because customarily discreet in words.

ROBERT PHILLIPS

James R. Hoffa's alleged threats show why businessmen must enter politics

Until recently most American businessmen have been distinctly loath to engage in politics in any active or corporate manner. For this reluctance, many reasons—good, bad and indifferent—are forthcoming.

A good reason is anxiety to avoid any action that might even appear to approve a class-war psychology in election campaigns which on the whole, with us, have happily been free from that Marxist concept. A bad reason is political apathy, often carried so far that many influential business leaders do not even trouble to register and vote. An indifferent reason is fear of entanglement with legal restrictions on political contributions. These, of course, were never designed to discourage the basic duties of good citizenship and cannot constitutionally do so.

It is the great success of union political participation, especially pronounced in the election of the present Congress, that has been forcing a review of all the objections to similar activity on the business side. And there is now little doubt that much more well considered political participation by businessmen, at local, state and national levels, is to be expected. Mr. Hoffa's alleged threats serve to emphasize the very real need for a broader concept of citizenship on the part of management.

"The Businessman's Guide to Practical Politics," a timely, forceful and interesting book on this subject, significantly assumes that the basic decision has already been taken. Its theme is how, not whether, this development will proceed. The author, J. J. Wuerthner, Jr., at the outset gives four reasons which make him conclude that the trend is inevitable. To recapitulate is to realize the impelling nature of the argument:

1. The "increasing impact of government intervention on the corporate structure at many levels."
2. "The increasing government-imposed costs of doing business."
3. "The impotence of businessmen in the political and economic contest of ideas."
4. The resulting "conclusion that votes can be gained by attacking the business community on a wide range of fronts."

The remarkable success of organized labor, both in creating and exploiting this situation, leads Mr.

Wuerthner to the conclusion that business must also organize politically, and soon. The alternative, as he sees it, will be the not-so-slow displacement of free enterprise by outright socialism, though this may for tactical reasons continue to masquerade as "liberalism."

American business rightly prides itself on "service." But the word is for the most part narrowly defined as the satisfaction of material wants both expeditiously and cheaply, under the pressure of competition. Therefore it can also be said that businessmen in general have been guilty of a disservice, to the country and to themselves, by doing so little to explain and defend the moral philosophy on which the free enterprise system rests.

• • •

Free enterprise cannot properly be regarded as an end in itself. To place all emphasis on the economy and efficiency of the open market is actually to imply that, if another system can provide those values better, then this alternative is to be preferred. And in a number of fields, such as the supply of power or of transportation, facts and figures can easily be juggled to suggest that under socialism the little fellow would get more for less.

With nationalization, as the unhappy experience of Great Britain testifies, there will be eventual disillusionment. People will bitterly realize that bureaucratic operation of a government-owned plant is always wasteful and often incompetent. By then, however, it may be too late to restore the mechanics of capitalism. Bad as the railroad service is in England, there is now no practical alternative to continued state ownership and operation.

But if the average man has no feeling of loyalty for free enterprise, he is, for the most part, deeply concerned with the underlying condition of freedom. This he really values, intensely for himself and often reverentially for his country as a whole. Indeed, the substance of our case in the cold war is that our side seeks to maintain "the free world" from the encroachment of Russian-directed communism. Unfortunately, it is not so much communism as an economic doctrine, but rather the active promotion of that system by the Kremlin, to which we take exception.

If we would more insistently emphasize the undeniable connection between freedom itself and free enterprise as its reflection in the sphere of commerce, our economic system would be in far less jeopardy than is the case. Yet business leaders, as a whole, have refrained from meeting this educational responsibility in the vital area of politics. The leadership of organized labor is showing no such restraint in working for the political limitation of freedom.

There is, fortunately, one real advantage in the fact that business is so belatedly competing in the area where COPE and ADA have been allowed to have full sway. The advantage is that, meeting no opposition, some labor leaders—and here we come back to Hoffa—have badly overplayed their hand. The selfish arrogance of this type of command is now all too clear, not least to many of its rank and file.

Business management, as it begins to encourage junior executives to enter politics at the precinct level, can be more idealistic and thereby more astute. It can show—the case is waiting to be made—that the free market philosophy is in the interest of all who cherish freedom. No offsetting argument can be advanced by labor racketeers.

It would seem that many businessmen are setting their hands to the plow of political action in just that spirit—not to protect their own selfish interests but rather for the reanimation of those traditional values which is so essential for the general welfare.

Businessmen of Minneapolis are among those now studying practical citizenship

If there is a note of piety in this movement, that is all to the good so long as it is not merely sanctimonious. When Lenin defined religion as "the opiate of the people" he unintentionally reminded us that for Americans it used to be a daily tonic.

Many instances of this idealized purpose could be cited. One is a movement sponsored by James Jay Fradkin, of Westport, Conn. With the cooperation of business firms he is, on appropriate occasions, printing as full-page newspaper ads an impressive creed "to Uphold, Protect and Preserve the United States of America." One paragraph reads: "Give us Men who have Honor, Men upon whom we can Rely, Men whom the Spoils of Office cannot Buy."

Such men, however, must first be persuaded to stand for office, must then be elected, and, after proving themselves, must receive continuing support. One is reminded of the two little girls who were late for school. "Let's kneel and pray that we'll get there on time," suggested the younger. "Let's run like blazes and pray as we run," replied the older, who by now is, or should be, a state committee woman.

Thousands of businessmen throughout the United States have enrolled in the "Action Course in Practical Politics" developed by the Chamber of Commerce of the United States. For details write Business Relations Department, U. S. Chamber of Commerce, 1615 H. Street N.W., Washington 6, D.C.

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Washington mood

By Edward T. Folliard

Eisenhower strategy may win budget battle

GOVERNMENT ECONOMISTS are saying now that the national budget may be in balance at the end of this fiscal year, with a modest surplus in the Treasury.

Two things account for this happy prospect, which is in sharp contrast to the outlook back in early winter. One is rising prosperity after the 1957-58 recession. The other is evidence that the Democrats in Congress are determined to hold down appropriations and in this way explode the charge that they are "spenders."

Revenue flowing into the Treasury this year promises to be considerably greater than was anticipated when President Eisenhower sent his budget to Congress on Jan. 19. Corporation profits, for example, are expected to rise to a record-breaking $50 billion, $3 billion more than the estimate. Since the tax rate on corporate earnings is 52 per cent, this would mean something like $1.5 billion in revenue that the Treasury had not counted on.

The upsurge in employment also is expected to bring in more income tax money than was anticipated.

• • •

Naturally, there will be political repercussions from this so-called Battle of the Budget, which really began in the campaign preceding the 1958 elections. It began when President Eisenhower, trying to help the Republicans regain control of Congress, tore into the northern Democrats, accusing them of being political radicals and "spenders."

After the election, which gave them an even stronger grip on the Senate and House, the Democrats were prepared to dismiss the President's harsh campaign oratory as something concocted by his ghost writers. Anyway, as they saw it, Congress would dominate the Washington scene in the days ahead, with the Chief Executive little more than a figurehead in his last two years in the White House.

To their surprise, and to the surprise of a lot of others, President Eisenhower continued his warnings against the spenders after the Eighty-sixth Congress convened. He has hammered away at them at press conferences, in statements and in speeches; he has never let up.

Consequently, the Republicans can be expected to give him and the Grand Old Party full credit if the Treasury does in fact end up in the black this year. They will say that he rallied the American people behind his fight for a balanced budget, aroused them to the danger of inflation as a result of government deficits, and brought about restraint among the Democrats in Congress.

This restraint is evident. But the two Texans who

Senator Johnson (right) resented tag "Budget-busters" used by Mr. Halleck

lead Congress—Sen. Lyndon B. Johnson and House Speaker Sam Rayburn—become furious at the suggestion that the President and his Republican cohorts had anything to do with it.

Senator Johnson, who prides himself on being an apostle of responsible government, blew up recently when Rep. Charles A. Halleck of Indiana, Republican leader of the House, called the Democrats "budg-

et-busters." The Texan said that the epithet was thought up by "Madison Avenue hucksters." He added that it was being used in an effort " to frighten, to stampede Congress by calling us socialists and spenders." He said it wouldn't work. The fact was, he said, that the Democratic-controlled Congress had consistently reduced President Eisenhower's budget requests over the past five years.

Moreover, Senator Johnson said, Congress again this year will appropriate less money than the President asked for in his budget.

• • •

To the Republicans, this was a remarkable and gratifying spectacle that meant only one thing: The Democrats, who marched into Washington so confidently last January after their triumph at the polls, were on the defensive.

It was indeed an astonishing performance when one considered the top-heavy Democratic majorities in Congress. It was also a reminder of the long, intermittent struggle between the legislative and executive branches of the federal government, which over the years has seen one or the other in the ascendancy as

Mr. Eisenhower proves Woodrow Wilson's estimate of the power of the presidency

the pendulum of power has swung back and forth between the Capitol and the White House.

In the days just after the Civil War, Thaddeus Stevens told his colleagues in Congress: "Andrew Johnson must learn that he is your servant and that, as Congress shall order, he shall obey."

Early in this century, a House member called on Sen. George F. Hoar of Massachusetts and asked him to support a certain bill, explaining that it had the support of the President.

Senator Hoar said that the President had no right to express an opinion on legislation still pending in Congress.

"There is a constitutional method," Senator Hoar continued, "by which the President conveys his approbation or disapproval of bills. It is nobody's business to be arranging with the President what the Senate shall do. We are an independent body."

The time was to come—notably in the early years of Franklin D. Roosevelt's Administration—when the White House would become the point of origin of most New Deal legislation, a sort of factory, with Congress serving merely as a rubber stamp. Congress snapped out of that servile role in FDR's second term, and has never fallen back into it.

Nobody has ever accused President Eisenhower of trying to dominate Congress. For that matter, no contemporary historian has ever called him a "strong" President; one has described him as an "earth-smoother" rather than an "earth-shaker."

Nevertheless, the soldier-statesman has shown that a President of the United States, who has a reasonably good hold on his countrymen, is more than a match for Congress when it comes to taking an issue to the people. Woodrow Wilson, in the days when he was a university professor, foresaw just such a situation when he wrote in one of his books:

"His (the President's) is the only national voice in affairs. Let him once win the admiration and confidence of the country, and no other single force can withstand him, no combination of forces will easily overpower him. His position takes the imagination of the country."

If President Eisenhower has won widespread backing for a balanced budget, it is because he has done something others failed to do in this field: He has related Treasury deficits to the danger of inflation, a shrunken dollar.

• • •

The American people began hearing politicians argue about a balanced budget back in 1930, when Jack Garner and other Democrats raised the cry in the Hoover Administration. For a long time, the argument seemed to leave most voters cold. They could not see how it affected them one way or the other.

Let deficit financing be tied to the danger of inflation, however, and it becomes a hot issue. And that is the situation just now.

The Gallup Poll shows that the greatest concern of Americans today, next to the problem of peace and war, is the cost of living—and this at a time when the Consumer Price Index has been remarkably stable for a year or more.

Another factor in the improved fiscal picture is the easing up of clamor for a larger defense appropriation. In January, it was clear that many members of Congress were unhappy about the President's defense budget. They felt that it endangered the nation's security. Predictions were then that Congress might add as much as $1 billion to the appropriation for the armed services.

This now seems unlikely, unless the Russians and Red Chinese do something to cause alarm.

Nothing has happened to change the grim world situation. However, the prevailing view here, and doubtless in the country as a whole, is that we are in for a long East-West deadlock; that there is no danger of a great war so long as the United States and Russia have the power to wipe each other off the map.

The Case of the Clumsy Worker

1.

"This man can do the work of ten," Bill Casey realized,
"But if I keep him *all* my men will soon be victimized.
He's always mashing someone's toe or bashing in a head.
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2.

When Travelers' man arrived he stated sympathetically,
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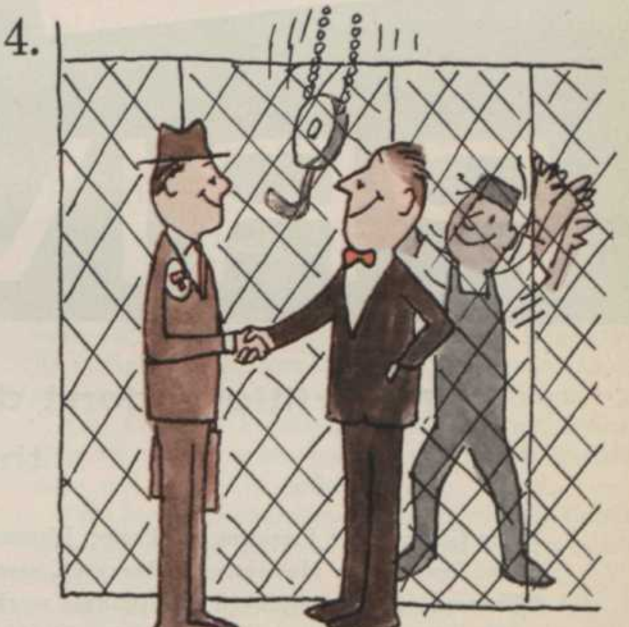
We'll put our safety experts on the problem right away—
To make this man productive in a less destructive way."

3.

As promised, Travelers safety engineers dug in and worked
To study Casey's operation—find where dangers lurked.
"Our Workmen's Comp and Liability," said Travelers' man,
"Cuts accidents and lowers rates—a moneysaving plan."

4.



So up went Casey's profits and his company's morale—
The clumsy worker hurt no one, alone in his corral.
Suppose you have a nemesis—inanimate or human:
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LABOR IN POLITICS:

How unions elect their friends

1960 election campaign raises this challenge to businessmen

THE BIGGEST political effort in union history will soon begin.

The objective: To elect, at all levels of government, persons who will give stronger backing to labor programs both in legislation and administration.

If the campaign succeeds, every businessman will feel its effects in his payroll costs, his tax bill, and even the local ordinances which control his operations.

Main targets of the union effort are the White House and Congress. But union politicians will work almost as hard to elect friendly governors, legislatures, judges and other state officials. They are also planning a more active part in local elections.

Union leaders are not satisfied with the political progress they have made since the low point of 1946, when only 25 so-called labor friends were elected to the Senate and 83 to the House. That was the Eightieth Congress which passed the Taft-Hartley labor law over strenuous union objections and a Truman veto.

With a greatly expanded political machine, unions last fall helped elect to the Eighty-sixth Congress 53 members of the Senate and 221 of the House—a clear majority—who are identified as sympathetic to the union legislative objectives. These members were either supported by unions, cast a large majority of right votes, from the union's viewpoint, or were at some time included among labor's friends.

Yet, AFL-CIO President George Meany, trying to spur 18 million union members and their friends to even more effective political action, warns:

"We have not changed the complexion of Congress enough; we will have to go further in the political field."

Mr. Meany recently underscored the fact that labor's emphasis is shifting from collective bargaining to politics when he asserted that the scene of battle had shifted from the picket line to the legislative halls.

David Dubinsky, vice president of AFL-CIO and head of the International Ladies' Garment Workers' Union, emphasizes the importance of having a friend in the White House.

"Veto the veto!" he pleads in urging the election in 1960 of "a new government to finish the unfinished business of the New Deal."

Businessmen, many of them just beginning to show interest in practical, grass-roots politics as a matter of good citizenship, can learn from the unions the kind

How unions elect their friends *continued*

of detailed preparation that makes political effort effective.

The new businessmen-in-politics activity is not intended to create a counter force to labor's political machine. It is, rather, a long-term program of applied citizenship for individuals in business and management. Its purpose is to get more of them to work in the party of their choice so that they will have a greater voice in both the selection and election of the candidates who will set the policies and make the many government decisions which bear so heavily on business.

The techniques which union political strategists use today have been developed during the 16 years since Sidney Hillman plunged unions into politics with the CIO Political Action Committee in 1943. The objective then was to help President Roosevelt's re-election to a fourth term after New Dealers lost ground in the 1942 elections.

These techniques depend mainly on three things:

► *Organization and manpower*. Multiple working committees extend from Washington through the states, counties and cities down to the local union. They are manned by political and public relations experts and thousands of paid staff personnel supplemented by hundreds of thousands of part-time workers and volunteers.

► *Effective programs*. These include registering and influencing voters and getting them to the polls, educating and training union members, endorsing candidates, and other year-in and year-out activities.

► *Spending*. Millions of dollars are spent in both union treasury and voluntarily contributed funds for direct financial aid to favored candidates and for election day and other political activity classified as "educational."

Organization and manpower

Labor's political machine is made up of many organizations, most of them interlocked.

Thirty-two labor groups, for example, filed reports of direct political spending in the 1958 elections with the Clerk of the House of Representatives.

This list includes only organizations which raise or spend money in more than one state in connection with a federal election. Not listed are the many state and local labor groups which confine their political activities within the state.

Not listed, either, is the first of the present-day labor political organizations, Labor's Non-Partisan League, which John L. Lewis started in 1936 to help re-elect President Roosevelt when Mr. Lewis was president of the CIO.

Today the League is the political arm of Mr. Lewis' United Mine Workers, but it concerns itself mostly with coal mining and *(continued on page 44)*

Labor's growing influence in Congress

Since AFL joined CIO in political activity after 1946, there has been a steady growth in the number of congressmen whom COPE claims as friends because they vote right on a large majority of issues

	SENATE	HOUSE	ELECTED IN
80th	**25**	**83**	1946
81st	**44**	**209**	1948
82nd	**38**	**183**	1950
83rd	**36**	**153**	1952
84th	**40**	**190**	1954
85th	**42**	**191**	1956
86th	**53**	**221**	1958

COPE workers in Alaska used union membership lists and telephones to help elect Ernest Gruening to the Senate. In foreground Mr. Gruening (left) and COPE leaders discuss campaign

Registering workers so they can vote is a vital first step in building labor's political power. A quick and easy way is to get them registered right at their place of work

Ask questions that get results

Three guidelines will help you gather useful information

SUCCESS IN DECISION-MAKING requires the ability to assemble accurate and usable information.

This ability also is fundamental in scientific study. Modern scientists and logicians have devoted much attention to methods of assembling information. Their findings are as applicable to business problems as to scientific research.

One of their chief inquiries has been into the phrasing of questions. In science such questions usually are not addressed to individuals but are intended as statements of the objects of the research program in hand. What science has learned, however, is equally useful to business executives who aim their questions at associates or subordinates.

Here are three basic points to keep in mind when asking questions:

▶ **Meaningfulness:** A question is objectively meaningful only if it is possible to work out what must be done in order to answer it.

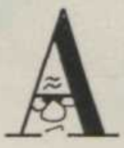
▶ **Probability:** A good practical question makes clear that the answer is to be an estimate based on available evidence.

▶ **Constraint:** The questioner must take into account the effect of group pressure on individual judgment.

Meaningfulness:

a question

is objectively meaningful only if it is possible to work out what must be done in order to answer it



Meaningfulness

Dr. Percy W. Bridgman, winner of the 1946 Nobel Prize in physics, has been a leader in studying the effect of modes of thinking on scientific inquiry.

One of his fundamental contributions has been his definition of an objectively meaningful question:

"To know the meaning of any question we must know what we would do to arrive at an answer."

He was led to this partly by a study of some of the famous paradoxes or riddles of science. One such riddle was proposed nearly a century ago by the mathematician W. K. Clifford:

"Is it possible that, as time goes on, the dimensions of the universe

may be continually changing in such a way that we never can detect the change because all our measuring sticks are shrinking or expanding in the same way as everything else?"

To determine whether the size of an object is changing, Dr. Bridgman points out, we must be able to measure it at different times with a measuring stick which does not change. But this question specifies that all measuring sticks are changing at the same rate as everything else.

"If I cannot picture to myself what I would do to check the correctness of any answer which might be presented," he concludes, "I must judge the question meaningless."

In practical affairs another factor enters. It must not only be possible to conceive a method of arriving at the answer, it must also be feasible to apply that method.

Consider a question the head of a firm might ask the personnel manager: "Are the members of the executive staff loyal to the firm?"

It is possible to conceive methods of gathering information with which to answer the question fairly conclusively. The members of the staff could be shadowed constantly, could be subjected to lie detector tests or given injections of the so-called truth serums. But this obviously would be an extreme solution and few company heads would consider it.

There are, in fact, no feasible procedures for obtaining an answer. The question should be: "Has the personnel manager, using feasible methods, found any evidence of disloyalty?"

By asking "Are they loyal?" his boss gives him an illogical task and may drive him to measures damaging to morale.

Dr. Bridgman points out a danger in the type of question which requires that a large number of factors be taken into account. Phrasing such a question so as to demand a yes or no answer is likely to render it objectively meaningless.

"Is this the best possible site for our new plant?" provides a good example. If an unspoken condition limits the choice to only a few sites—perhaps because land the company already owns must be used—the question is meaningful. Each of the few sites can be evaluated.

But suppose the new site might be anywhere in the country near the chief markets and with plenty of water, transportation and other facilities. This would make eligible a large number of sites. To answer the question, it would be necessary to compare all these sites with each other in terms of a number of factors. Not even an electronic computer could guarantee choice of the "best possible" because coding such a problem for a computer requires that arbitrary numerical values be assigned to the various factors. Those values can be only approximations at best.

To make possible a yes or no answer it is necessary to limit the terms of the question. In this case an objectively meaningful version would be "Is this the best site we have had time to discover and evaluate?"

Even physicists, Dr. Bridgman admits, have found it difficult to accept emotionally the full significance of the nature of objective meaning. It is easy to agree that you do not know what you mean by a question unless you can picture what you would do to get the answer, but it is far from easy to make this realization a habit of thought. Yet such a habit can clarify thinking astonishingly.

It was this habit that led Einstein to the theory of relativity.

"What," he asked himself, "do I mean when I ask whether two events in different places occur simultaneously?"

He concluded that what he was asking *(continued on page 94)*

Probability:

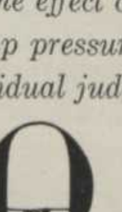
a good practical

makes clear that the

is to be an estimate based on available evidence

Constraint:

the questioner



must take into account the effect of group pressure on individual judgment

OUTLOOK FOR THE NEXT 12 MONTHS

Nation's Business poll shows expectations of businessmen

MEN WHO MAKE future-shaping decisions for business and industry say the nation's economy will show increasing strength over the next 12 months.

They foresee rising sales, plump payrolls, relatively stable prices and profits.

They are boom-minded but, when they do find time to worry, it is over such formidable problems as high taxes, inflation, cost pressures, union power and foreign competition.

These are standout findings of a NATION'S BUSINESS survey of high-ranking executives in a cross section of large, medium-sized and small companies throughout America. With few exceptions, their estimates and comments reflect optimism over the prospects for their own businesses and the economy as a whole. They tend to confirm the optimistic projections of the country's leading economists.

The survey participants were asked to forecast sales, employment, prices, profits, product labor costs, capital expenditures and other vital business factors from the present to mid-1960.

Here's a synopsis of what they see ahead:

General business conditions: The current surge in industrial and commercial activity will gain added momentum in the second half of this year and drive the leading indicators of good times even higher by the middle of next.

(Although the survey did not include a question on the issue of steel wages, the participants undoubtedly framed their answers with the possibility of a strike in mind.)

Sales: The dominant feeling is that sales will rise. Seventy-nine per cent of those taking part from large companies predict an increase. Among smaller organizations, 77 per cent forecast a sales increase.

Inventories: More than 80 per cent of the executives say they have about reached minimum inventory ratio for their expected *(continued on page 64)*

All figures in these tables represent an averaging of estimates from companies of all sizes. Because of multiple answers to Question 5, percentage total exceeds 100 in that instance.

Question			
Do you expect sales in your industry 12 months from now to be	better than today's annual rate? **71.5%** chose this answer	about same? **28%** chose this answer	not as good? **0.5%** chose this answer
Do you expect sales of your company 12 months from now to be	better than today's annual rate? **78.3%**	about same? **20.0%**	not as good? **1.7%**
Have you reached about minimum inventory ratio for your expected sales rate?	yes **80.9%**	no **19.1%**	

Do you expect employment in your firm 12 months from now to show	increase over today's level?	remain about same?	decrease?
	42.7%	51.6%	5.7%

Do you expect your company, in the next 12 months, to spend more than its current rate of expenditures for	improving existing products, services?	launching new products or services?	expanding existing capacity?	altering facilities for purposes of cost-cutting or product modification?
	33.3%	29.7%	31.3%	34.6%

Would your spending for capital improvements increase with favorable revision in	corporate tax rates?		depreciation provisions?		excise levies?	
	60%	40%	56.6%	43.4%	22.2%	77.8%
	yes	no	yes	no	yes	no

Do you expect the price of your products or services to	rise?	stay about same?	decline?
	37.1%	56%	6.9%

Do you expect your profit per dollar of sales to	improve over today's average?	stay about same?	decline from present?
	38.2%	52.8%	9.0%

Do you expect your product labor costs (not just wage rates) to	rise?	stay about same?	decline from present level?
	55.1%	41.3%	3.6%

Does your company plan to spend for research and development in the next 12 months	more than present rate?	same?	less than present rate?	doesn't affect us
	36.7%	46.5%	1.8%	15.0%

Do you expect your industry over the next five years to increase its volume over current levels by

1–5%	6–10%	11–15%	16–20%	21–30%	31% or more	decrease
8.8%	26.6%	21.7%	13.7%	12.4%	15.9%	0.9%

By how much do you expect your company to increase its share of the market over the next five years?

1–5%	6–10%	11–15%	16–20%	21–30%	31% or more	decrease
37.7%	30.9%	12.9%	6.7%	4.1%	7.2%	0.5%

Plan your part in the boom

Action in these three areas is key to maintaining growth

This is the time to shape policies to future trends

YOU CAN PROFIT by the new boom and yet avoid the costs of any extreme future upturn-downturn course that might develop in business.

The secret is to look ahead in these key areas:

- ► Sales and capacity.
- ► Inventories.
- ► Methods.

By studying the future of these three factors, a company—any company—gains perspective on fluctuations in the economy. Short-term recessions, then, will not cause undue fright, nor booms bring over-optimism.

In principle, a boom is a period when orders generally exceed production and may even exceed capacity. This can happen in a few segments of the economy without dangerous consequences. But if demand as a whole exceeds supply as a whole, prices rise and distortions are created. Eventually, some capacities are expanded too much. The result is likely to be recession.

Sales and capacity

One of the first things that has been found desirable in planning for a coming boom is the development of a set of sales goals for a period of five or more years.

For planning purposes today, a company might assume that the total volume of business will rise to a rate between \$495 billion and \$500 billion by the first quarter of 1960, and to \$515-\$520 billion by the first quarter of 1961.

Such assumptions for the economy as a whole might lead the company to set its sales goal for 1960 approximately 15 per cent higher than that reached in 1957. The figure would vary by product as well as by company, but some goal should be set. The com-

pany probably would want some reserve capacity. This reserve should be relatively small at the peak. With a five per cent per year growth program and a five per cent excess capacity at peak demand, planned capacity in 1960 could be 20 per cent greater than actual sales in 1957.

The company might calculate that the next boom in sales after 1960 will come in '63. It would, therefore, want to plan now for a capacity in '63 that will be 15 per cent greater than the goal set for '60. If the goal for capacity in '60 were 20 per cent above sales for '57 the goal for '63 might be 115 per cent of 120 per cent, or roughly 140 per cent of sales in '57.

The next step is to compare the currently programed capacity for '60 and '63 with these sales goals. If current plans will not provide enough capacity for '60, the company will need to act in a hurry. If capacity is sufficient for '60, but not '63, it will want to set its designers to work and be ready to let contracts by the fall of '60 or '61, or whenever the current rise slackens. By so doing it will be able to make the best arrangements with contractors and be sure that the new capacity is on the line and proven before it is needed for the next upswing.

The dates and growth rates suggested here as goals are for planning purposes only. As time passes the company will be able to nail them down more specifically, to move them forward or backward, or up or down. But, for the present, tentative dates and growth rates should be set and followed.

Inventories

Such a long-range sales and capacity program will enable the company to lay out many subsidiary programs which can save sizable amounts of money. For instance, an inventory schedule developed from the sales program may help avoid building up excess inventories at peak prices at the height of a boom and help prevent inventories from getting too low at the bottom of a downturn, when they could be built up or, at least, maintained most advantageously.

Business spent nearly $4 billion for inventories in the first quarter of '56. It spent nearly $2.5 billion on inventories in the first quarter of '57. Then it began to liquidate them. In the first quarter of '58, net liquidation was at an annual rate of more than $8 billion. In the first quarter of '59, inventory build-up was at an annual rate of $6 billion, a rise of $14 billion.

Such a shift in inventory policies resulted in a drop of more than $15 billion in the annual rate of inventory building from the peak in '56 to the bottom in 1958. The total drop in business as a whole from the peak to the trough was only $15 billion. Without the inventory shift the recession would have been minor indeed. Such fluctuations are expensive to the companies causing them and to the companies whose orders jump around violently as a result.

So another way to prepare for a boom is to create an inventory policy which will not leave the company stuck with huge excesses bought at high prices just before sales begin to drop—or leave it short when business picks up.

If the sales program calls for a rise of 10 per cent from 1959 to '60 and a rise of not more than five per cent from '60 to '61, the men in charge of inventories will not get excited by the 10 per cent rise when it occurs, and will not assume that there will be another 10 per cent rise in '61. They can hold inventories down to what is required rather than build them up on the assumption of a 20 per cent rise in two years.

They will not have to liquidate in '60 or to cut back on their inventory program in '61 because they overshot their mark. With an inventory policy geared to the period ahead, not just to the immediate sales records, they will have adequate inventories as they need them, but not large surpluses bought at high prices in one period, followed by embarrassing shortages a little later. If all companies could gear their inventory policies to long-range programing, a major cause of business fluctuations, the inventory cycle, could be reduced.

Methods

Sales, capacity, and inventory policies are important parts of the problem of preparing for booms. Efficient production, low costs, and design and prices that are continuously attractive to customers also are important.

It is possible to postpone installation of new capacity if that capacity will not be needed soon. It may be dangerous to postpone the installation of cost-cutting equipment or of machines for improving quality or modernizing style or design. Fortunately, modern technology is making it possible to modify, rather than replace, much existing machinery, even when the goods produced are being changed significantly.

This helps keep plants up to date at modest cost and makes replacement of existing new equipment in boom times less necessary.

Businessmen also need to remember the importance of controlling costs. Careless methods sent costs up in '53, '55 and '57.

The seeds of high cost may be sown at the onset of a boom. When everything seems rosy it is easy to overlook the reintroduction of wasteful methods. But as a boom progresses it becomes harder to get rid of such wasteful methods. The spread between cost and price narrows, further reducing profit margins.

Many firms wait until recessions to streamline their operations, and neglect the process thereafter. It is better to continue to streamline through at least the early months of the upswing. The attitude of those concerned is better and *(continued on page 88)*

WHEN TAXES CAN BE CUT:

Administration view

PHOTOS—ROBERT PHILLIPS

Here's what Under Secretary of Treasury Fred C. Scribner, Jr., says about chances of revenue law changes for next year

TALK of top-to-bottom federal tax studies raises these fundamental questions:

▶ **What are the chances for tax cuts in the near future?**

▶ **Will revision of any sort come next year?**

▶ **What revision will the Administration recommend?**

▶ **Will federal expenditures rise or fall in fiscal '60 and '61?**

▶ **Does the expectation of better business in the year ahead mean revenues will rise? If so, how much?**

These and other vital tax questions are answered for NATION'S BUSINESS readers by Fred C. Scribner, Jr., Under Secretary of the Treasury. As the number two man in the U. S. Treasury Department, Mr. Scribner is one of the top authorities in the government concerned with tax policy. (Internal Revenue Service, a bureau for the Treasury Department, administers the tax laws.)

He became general counsel of the Treasury Department in July 1955. In early 1957 he became Assistant Secretary of the Treasury and later that year was named Under Secretary. Mr. Scribner is a lawyer. His home town is Portland, Maine.

These are his answers to the questions of NATION'S BUSINESS editors:

Mr. Scribner, do you expect taxes in the future to be higher or lower?

I wish I could say that I thought the over-all tax burden of the American people was going to be reduced in the near future.

In the over-all load, I include state and local as well as federal taxes. Looking ahead for the next decade, I believe there may be some increases in terms of total dollar amounts. The American people seem to expect and want the continuation of present services and also additional services which are going to cost more. We must, of course, spend what is necessary for national defense.

I hope that more and more of the services will be on the local level, where they are closer to the people

and where you get more for a dollar spent than you do when removed two or three steps from the taxpayer.

I certainly hope that all of us in government will continue to do everything we can to keep the cost of government down. To the extent that we are successful, the amount of the dollar increase will be kept low.

Then there's little chance for federal tax reduction in the foreseeable future?

This is a difficult thing to predict. We are just concluding the fiscal year—fiscal '59—with a federal deficit in the magnitude of $12.5 billion. It is understandable that we should not become too encouraged about a sizable tax cut in the near future.

The best way for us to provide for a tax cut would be to reduce our federal expenditures. We shouldn't get very enthusiastic about obtaining tax cuts unless we find ways properly to reduce spending.

Do you expect revision of any sort next year?

We are continuing Treasury studies. The Ways and Means Committee expects to start broad-based studies of the tax system next fall and we are cooperating in this program. I would suppose we and they will want to see the results of the studies and hearings before any decisions are made. (Chairman Wilbur Mills of the Ways and Means Committee has scheduled hearings to start Nov. 2 aimed at eventual tax revision and reduction.)

Would you favor broadening the tax base?

A broad study of our present tax structure—looking to the question as to whether we might be able to collect more revenue and do this more equitably by eliminating some of the deductions and exclusions—is well worth doing. But you can't prejudge what the results may show.

On the other hand, I think we must work constantly toward getting a surplus which can be used for debt reduction as well as for an over-all tax revision program which will bring some tax relief generally to everybody now subject to taxes.

What will federal expenditures be in fiscal '60 and '61?

For fiscal '60 the budget is submitted at $77 billion. For '61 it will take a terrific struggle to keep the budget at that level.

Will it rise above $77 billion?

It is too early to say for certain.

Revenue for '60 is expected to be about $77.1 billion?

That was our January estimate based on the assumption that Congress would approve the President's request for a postal rate increase and other revenue requests.

Will the expectation of better business mean that revenues are likely to exceed that amount?

Based on reports and the taxes actually collected in the past few months we now think that the revenue from corporations for *(continued on page 60)*

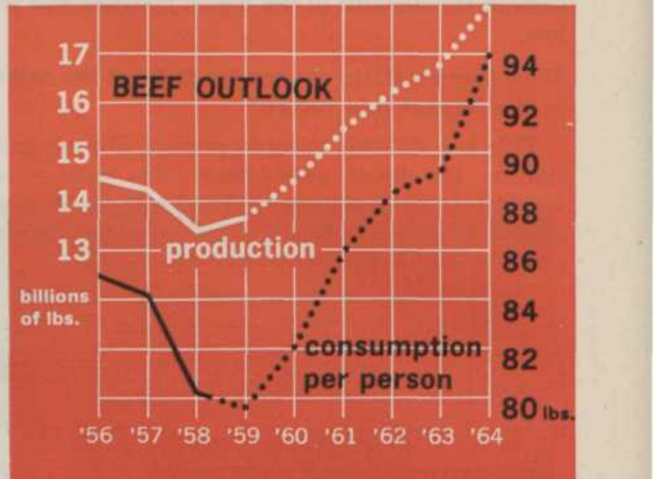
"I wish I could say that the over-all burden would ease"

"Depreciation is an area where some liberalization will help"

"... All of us in government should try to keep costs down"

HOW'S BUSINESS?

today's outlook



AGRICULTURE

Our increasing cattle population is causing alarm in many quarters.

Recent indications point to a rapid build-up of beef herds. The U. S. Department of Agriculture reported a decline of 24 per cent in slaughter of cows through March, and a similar drop of 21 per cent in calf slaughter through April.

This suggests an increase of four to five million cattle on farms in 1959—a rate of gain substantially exceeding population growth.

However, cattle prices are expected to remain relatively high throughout the year. In the early stages of cattle expansion, comparatively high prices are normal because producers withhold stock to enlarge their operations.

However, if cattle numbers continue to climb at the present indicated rate, the price-depressing effects may be severe when the excess young stock and cows are finally liquidated.

The market would become even more demoralized if the cattle expansion extended through a drought or a peak in the hog cycle.

CONSTRUCTION

New construction activity is well on its way to a record year.

Currently, new work put in place is running at an annual rate of about $54 billion—up by more than 11 per cent over last year.

Private construction accounts for more than $37 billion of the annual rate total—an unprecedented level exceeding 1958 by almost $4 billion.

This private work continues to be the backbone of new construction activity. Of the remainder, about three fourths is state and locally owned work and one fourth federally owned work.

Although the dollar volume of new private construction work is now at all-time high levels, its per cent of total work is not. In several postwar years private construction has substantially exceeded its current 70 per cent of the total.

CREDIT & FINANCE

Pressure for federal community facilities grants seems to be developing in some congressional quarters although statistics on the amount of local municipal bond sales made during the past year in depressed communities show that private investors have been willing to risk their funds in these areas.

The 75 industrially depressed areas surveyed last year sold 164 separate bond issues which totaled $152 million.

The congressional demand for grants and loans to labor surplus areas is expected to diminish, however, as the employment picture continues to improve.

In the government bond market, Treasury bills continue firm. Interest rates are showing a tendency toward hardening at present levels.

Industrial stocks continue their advance, with rails and utilities moving in a more narrow range.

DISTRIBUTION

"Buoyancy" is the word characterizing distribution activity at 1959's half-way mark. Sales momentum has gradually gathered since last December.

Production of all kinds of consumer items is up. People with higher incomes are not only spending more money—but they are showing more willingness to buy on credit.

Dollar volume in over-all retailing for the first half stands more than eight per cent above last year's level for the same period. Since the U. S. Commerce Department's retail price index has held steady for 12 months, this means higher physical volume, too.

Whether or not the auto dealers ring up total car sales of six million, the prospects for a better-than-expected year are good. The mood of indecision among car buyers has now generally vanished. One auto maker noted that the traditional spring bulge in auto sales had reestablished itself.

Nondurable goods sales continue to exceed year-earlier levels. Trade sources report that apparel gains have been excellent, and that the fall sales outlook is good.

FOREIGN TRADE

The liberalization of trade barriers by the United Kingdom and

other European countries should encourage exports from the United States.

Great Britain has abolished dollar import quotas on a long list of agricultural and manufactured goods. Other quotas will be enlarged.

The Netherlands has ended all restrictions on dollar imports imposed for balance of payment reasons.

West Germany's remaining quotas will be eliminated over a three-year period. Other countries, particularly France and Italy, are expected to take further liberalizing steps later this year.

In addition, at their fourteenth meeting, the contracting parties to the GATT (General Agreement on Tariffs and Trade) resolved to start, in the fall of 1960 and running well into 1961, a new general tariff negotiation. This will present a real opportunity to lower the external tariff to the European Common Market.

GOVERNMENT SPENDING

Although the budget outlook for fiscal 1960 is brighter than at any time in the eight months since the election, several major spending programs which have been, or may be, initiated by this Congress may result in built-in costs in the future.

Major portions of the budgets for 1961 and 1962 will be determined by actions now. Meanwhile, the budget picture for fiscal 1960 is not expected to differ much from the one the President predicted in his budget message in January.

Although revenue estimates are expected to be up by about $600 million, this will be largely offset by increased interest costs for the national debt. Other major changes will be few and the surplus will be close to the $70 million previously estimated.

Although some specific appropriation bills may exceed the President's request, the over-all figure is expected to be slightly less.

NATURAL RESOURCES

Local raw material needs, business expansion, payrolls and tax bases would be affected by the rapidly growing movement to withdraw millions of acres from full resource development and restrict their use to recreation.

Most current proposals will eliminate from beneficial use all basic resources, including water, timber, minerals, gas and oil, forage and wildlife. General economic development would be restricted.

Proposals, ranging from discussion to actual legislation, include 50 million acres of public land for totally restricted wilderness areas; up to 14 million acres of national forests to be withdrawn from beneficial multiple uses, including recreation, for national seashores, parks, and monuments. Authority now exists to buy four million acres, mostly private, for wildlife refuges. A proposed game range will take nine million acres.

More than one million acres of private, tax-paying lands could be taken by current proposals.

Businessmen are urging that land withdrawals of this magnitude be coordinated and evaluated with other needs to assure wise land and resource use.

LABOR

Several bills now under active consideration by Congress would help restore a measure of control, integrity, and power to local governments in the field of labor disputes.

Two recent court decisions emphasize the need for action.

The labor reform bills of Congressmen Barden (D.-N.C.) and Kearns (R.-Pa.) would provide an answer in the labor-management field. A broader antipre-emption bill introduced by Congressman Smith (D.-Va.) and Senator McClellan (D.-Ark.) would be applicable in all areas of proper state action.

The North Dakota Supreme Court struck down a lower court injunction against picketing to force unionization upon employes contrary to the state right-to-work law.

An Illinois Court of Appeals ruled invalid an injunction against picketing by a Teamsters local contrary to state law.

These are the latest of several cases decided, not upon their merits, but on the doctrine of "federal pre-emption."

As a result of U. S. Supreme Court decisions that the Taft-Hartley Act had pre-empted the field so as to deny the state courts jurisdiction in labor disputes, an increasing number of states have refused relief to both employers and unions involved in such disputes.

In many instances, this means no relief because the National Labor Relations Board refuses to accept jurisdiction over the cases.

TAXATION

State taxation of income from interstate commerce is beginning to cause a furor on Capitol Hill.

As more states begin to enforce laws already on their books, and new states adopt laws to take advantage of a newly assured way of easing their revenue shortages, businesses are receiving an accelerating flow of demands for reports and tax payments.

Congressmen are receiving an increasing number of letters urging action to minimize this new burden. As a result, several members of each House are preparing drafts of bills for immediate introduction.

The Senate Small Business Committee has held hearings in several areas. Businessmen who testified have been in unanimous agreement as to the injury they would suffer, and the urgent need for action.

TRANSPORTATION

Intercity commodity movement should remain high throughout the second half of 1959, barring prolonged strikes in such key industries as steel or railroads.

Tonnages of domestic intercity freight movements show this increase over 1958:

Railroads—First five months—up 13 per cent (carloadings).

Trucking—First five months—up 17 per cent.

Great Lakes—First four months—up more than 100 per cent (bulk commodities).

Inland waterways—First quarter—up 16 per cent (common carriers).

Oil pipelines—First quarter—up 10 per cent.

Air Freight—First quarter—up 20 per cent.

Since the last half of 1958 was a period of recovery, percentage increases for the next six months will be somewhat less spectacular. However, if the present high level prevails throughout the year, the 100 billion ton-miles drop from 1957 to 1958 will be recovered.

labor legislation. In elections, it claims to make no financial contributions to candidates. It merely endorses friendly office-seekers and distributes the voting records of legislators.

Railroad brotherhoods carry on their political activities through Railway Labor's Political League.

A number of national unions have their own political organizations. These include:

Amalgamated Clothing Workers Political Education Committee.

International Ladies' Garment Workers' Union 1958 Campaign Committee.

Machinists Non-Partisan Political League.

International Typographical Union Political Committee.

Textile Workers Union Political Fund.

Trainmen's Political Education League.

United Automobile Workers Political Action Committee.

United Brotherhood of Carpenters Non-Partisan Political Committee.

United Steelworkers of America Voluntary Political Action Fund.

Upholsterers' International Union Trades Campaign Committee.

The best known, largest and most potent labor political organization, however, is the AFL-CIO Committee on Political Education, commonly identified as COPE. It is the machinery through which the AFL-CIO and many affiliated unions operate—a merger of the old CIO Political Action Committee and the AFL Labor's League for Political Education.

The COPE political network covers the country and functions the year-round.

James L. McDevitt, who used to be chief lobbyist for the Pennsylvania Federation of Labor at Harrisburg, is the staff director. He works under a COPE Operating Committee which includes the secretary-treasurers of 30 international unions. This committee supervises the day-to-day programs.

COPE also has an Administrative Committee, consisting of the 29-member AFL-CIO Executive Council and the presidents of 15 unions not represented on the Council. This committee sees to it that COPE carries out the policies set by the AFL-CIO convention and implemented by the Executive Council. These policies include endorsement of a presidential candidate, the issues on which legislators will be measured as to right and wrong votes, and fund-raising quotas.

The real work, however, is carried out by the staff under Mr. McDevitt and the staffs of the affiliated committees in the state and local communities and in the individual unions.

There are COPE organizations in every state. Those in Alaska and Hawaii were set up immediately after the states were admitted.

AFL-CIO's Meany: "We haven't changed Congress enough"

More than 400 COPE organizations operate in congressional districts, counties or cities.

Just how many local unions have a COPE is not clear, but each of the 60,000 locals in the AFL-CIO is instructed to set up not only a political committee, but also a permanent registration committee.

Cutting across COPE lines are the 132 international unions affiliated with the AFL-CIO. Most of them have COPE organizations or political action committees.

Programs and techniques

Labor's political machine runs at full speed the year round, raising money, registering union members, educating them, training political workers, getting out the vote, discussing issues, evaluating and endorsing candidates.

Registering: Labor political committees concentrate on getting workers registered and to the polls because they recognize that labor can only be as effective at the polls as its "actual voting strength."

Local union registration committees comb membership lists regularly to insure that as many as possible are registered to vote.

Union canvassers call at workers' homes to tell them how, when and where to register.

Notices, some looking as if they might have been sent by the Board of Elections, are mailed to the home with instructions on registering.

Sometimes a union official puts pressure on the individual to assure registration. This is how James P. Griffin, a district director of the United Steelworkers of America, concluded a letter to a nonregistered union member:

"When you register to vote, please have the clerk who registered you sign the enclosed, self-addressed card. Drop the card in the mail box—no postage is necessary.

"If we fail to hear from you within two weeks your name will be placed on the union's nonregistered list and your local union will be notified of your noncooperation.

"You will then be contacted by your local union registration committee."

Some unions use a "Registered Voter" stamp which they stick on the member's dues book.

COPE sources say that in some places the union has been able to include in the union contract a provision that employes will be paid for voting time off on election day only if they are registered to vote. Such a contract clause is supposed to have increased registration tremendously in a plant where only 40 per cent of the 4,500 employes were previously eligible to vote.

The percentage of registration varies widely by companies, local unions and areas. Registration among union members has risen from 35 to about 60 per cent in 10 years.

Getting out the vote

Getting out the vote is mostly an election day job, and one in which the extensive manpower and the finances available to the unions pay off.

All kinds of techniques are used, some well known, some not.

These include:

Telephoning prospective voters at intervals during the day, urging them to vote.

Making cars available to take them to the polls.

Providing baby sitters for house-

(continued on page 48)

Mr. Jones, the auditors are here . . . MR. JONES!

In the past two years more businesses have been caught on a limb by embezzling employees than in the previous quarter century. And almost 40% are not insured for such loss! In fact, surveys prove over 2,500,000 businesses lack adequate protection against one or more *common* risks.

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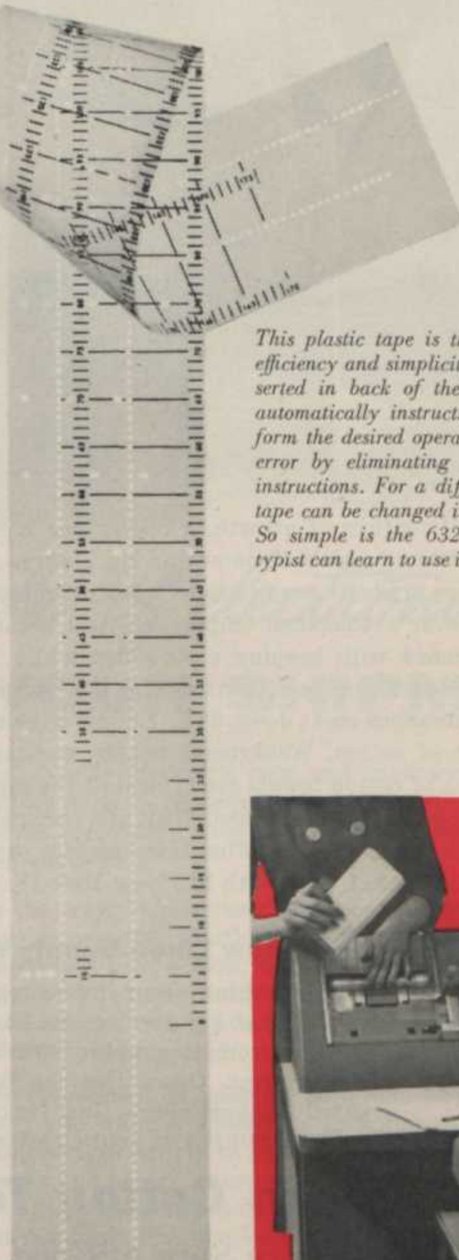

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HOW UNIONS ELECT

continued

wives with small children. Checking the lists at the polling place late in the day to find out who has not voted, then contacting the laggards. These contacts are usually concentrated among voters who are likely to vote, or might be influenced to vote, labor's way.

In Indiana last fall, the United Steelworkers used 70 cars in Indianapolis and 100 more upstate to get voters to the polls.

Education and training

Political education and training of union members is constant through the labor press, pamphlets, public statements of union officials, discussion groups, regular training courses and seminars or institutes.

Union newspapers discuss legislative and political issues, and relate them to what unions believe to be the employes' interests. The contrast with company house organs, which mostly avoid political issues, is startling.

Large unions which run summer institutes on union problems on many college campuses devote at least part of the course to practical politics.

COPE itself conducts conferences each year covering every part of the country. Labor's political leaders and workers are brought together to discuss political problems, techniques and strategy.

This year it held two-day conferences in 20 cities, from March through June. More than 9,000 political workers attended.

These are full-dress affairs, run by COPE Director McDevitt and top staff personnel from Washington. Participants break up into groups for detailed discussion of registration drives, fund-raising, women's activities, organization, issues and other aspects of politics.

Wide use is being made of a new movie, "Wisconsin Story," which illustrates effective techniques used in that state last year to help elect Sen. William Proxmire and Gov. Gaylord A. Nelson, both Democrats.

The United Steelworkers have full-time legislative directors in each of the union's 29 districts. They run three-month training courses on local, state and national politics for rank-and-file members as well as local union officials. This "Legislative Education Program" has been a required activity under the constitution of the union since

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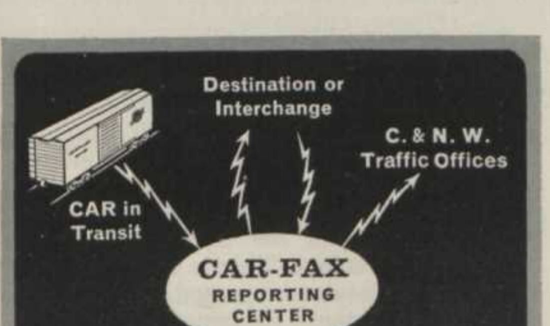

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CHICAGO AND NORTH WESTERN RAILWAY

1956. Participants attend weekly classes devoted to election and legislative activities and procedures and public issues.

In 10 years, the Steelworkers claim to have trained 18,000 members in political and legislative action.

Political endorsements

All the union political organizations endorse candidates for office, though strategy determines whether the endorsement is made public. Last fall, to avoid embarrassing certain candidates, COPE did not release its endorsements until election day. Usually, however, the endorsements are publicized for weeks before the elections so that members may know whom the union is supporting, and sometimes why.

In one instance, the Teamsters Union is said to have endorsed a candidate it opposed, because it felt this would hurt his chances. It quietly gave financial support to his opponent.

Members of Congress and state legislatures are usually endorsed if they have a favorable record of right votes from labor's standpoint. Members of the last Congress were judged by COPE on 16 votes in the Senate and 13 in the House.

But a favorable voting record does not always assure endorsement. COPE may oppose a candidate with a good recent record if his previous record is considered unfavorable and he is suspected of having leaned toward labor just before election to woo its support.

COPE opposed the re-election of Sen. J. Glenn Beall, Maryland Republican, although his record in the last Congress was 11 right and only five wrong votes. His record in previous Congresses, however, showed only one right and nine wrong votes.

Where the question of endorsement is close, COPE admits privately that support will be given to the Democrat.

COPE endorses few Republicans. According to the Republican National Committee, COPE "financed and worked for" 32 Senate and 185 House candidates, but only two for the Senate and two for the House were Republicans.

Political spending

The importance of money in labor's political activity depends less on the amount spent than on its availability at the time and place it is needed.

No information is available on just how much unions spend, but there is no doubt that the amount is significant.

Reports filed with the Clerk of the House of Representatives indicate that labor organizations spent \$1,828,777, but this figure covers only what was spent out of voluntary contributions raised or spent in more than one state for direct political action.

It does not include what local and state organizations spent within state boundaries, nor what the unions spent out of dues funds for political "education."

Education spending is not reported and is believed to exceed what is reported. Here are some of the activities that are considered "education" and their costs not reported:

Compiling, publishing and distributing voting records.

Political training classes.

Getting workers registered.

Paying election day workers.

Providing automobiles to get voters to the polls.

Political meetings.

The 20 COPE area conferences.

Publishing newspapers, which print endorsements of candidates.

Basically, COPE gets its funds from a drive among 13.5 million members of AFL-CIO unions. Each of the 132 unions has a quota of \$1 for every five members. They can meet this through a combination of treasury funds and voluntary donations.

Half of the \$1 is supposed to be sent to COPE in Washington. The remaining 50 cents is supposed to stay in the state for use as campaign contributions to Senate and House candidates.

COPE reported spending \$589,224 last year in voluntarily contributed funds, so that the total spent, including what was left in the states, would be at least double, or \$1,178,448.

But COPE also receives money direct from the treasuries of national unions. This is used for education and not reported. The United Steelworkers, for instance, make an arbitrary decision as to how much of their quota will be met with treasury money and how much with funds voluntarily contributed.

Last year, the Steelworkers reported spending \$192,136 in campaign contributions and other outright politicking.

Six AFL-CIO unions do not contribute financially to COPE. They raise and expend their own political funds, although they may cooperate in other COPE activities. These unions are the Machinists, Ladies'

Growing business interest in practical politics is indicated by the fact that 1,136 business organizations purchased the "Action Course in Practical Politics" during the first five months that it was made available by the U. S. Chamber of Commerce.

The course consists of a set of eight pamphlets, covering all phases of practical politics, and a discussion leader's manual, which are used in nine sessions of study and discussion.

The course was purchased by 657 business firms, 390 local chambers of commerce, 74 trade associations and 15 state chambers.

HOW UNIONS ELECT

continued

Garment Workers, Glass Bottle Blowers, Hatters, Retail Clerks and the Carpenters. The Carpenters don't cooperate in any way with COPE. Their leadership has had Republican leanings.

The Ladies' Garment Workers, which reported spending $107,716 last year, still has $511,797 in what has been called its "political war chest."

Many Democratic candidates receive more financial help from labor groups than from their party. The campaign committee of Sen. Stephen M. Young, Democrat, who scored an upset victory over Sen. John W. Bricker in Ohio, for instance, reported receiving $29,950 from labor groups and only $4,500 from Democratic organizations.

In addition, the Ohio COPE organization, just a week before the election, paid $5,000 for a TV show promoting Senator Young's candidacy. This was done through an Independent Citizens for Stephen M. Young Committee, which seems to have been set up solely for the purpose of handling the transaction. This amount was reported in the state, but is not included in the national labor spending figures.

Ohio COPE had made two earlier $1,000 contributions to Senator Young's campaign.

John G. Freedom, an unsuccessful Democratic candidate for Congress in the heavily industrialized district around Canton, Ohio, received $4,500 in contributions from union groups and only $350 from Democratic organizations.

Labor's political spending is threatened by a decision of the Georgia Supreme Court in the so-called Looper case. The case involves a group of railroad employes who refuse to pay union dues under a compulsory union membership contract because part of the money is spent to support political candidates and views with which the employes do not agree.

The court held that a union shop contract requiring membership in the union is invalid where part of the dues is used for political purposes.

With 80 per cent of unionized employes working under union shop contracts, this decision, if upheld, could force unions to give up compulsory union membership contracts or curtail their political spending. The issue is on its way to the Supreme Court. END

YOUR STAKE IN ECONOMIC GROWTH

How prospects for business will influence 1960 election

POLITICIANS, ECONOMISTS and businessmen are wrestling with this key question:

How fast should the U. S. economy grow?

The answer will affect the habits of every American consumer as well as those who buy, sell or produce goods or services.

Over the long term, our economy has expanded at the rate of about three per cent a year.

Now various groups are urging that the rate can, and should, be forced up to five per cent.

How this can or should be done is likely to become an important issue during the 1960 presidential campaign. Meanwhile, a special presidential committee headed by Vice President Richard M. Nixon and including several cabinet members is studying the question. So is the Joint Economic Committee, headed by Illinois' Democratic Sen. Paul Douglas. Both committees will consider the problems of growth and will issue special reports.

Why two percentage points in growth rate should raise such an economic controversy becomes clearer once we understand where the growth rate comes from and what may be necessary to change it. Although a three per cent rate of gain may seem small, it actually has been the secret behind the high American standard of living. This is why we have been the envy of the world.

Russia's growth explained

However, in the postwar years, considerable concern has developed because of the rapid rate of growth in Russia. While reliable data are unavailable, it is clear that Russia's growth rate has been exceeding ours in many respects. This was not unexpected and should not cause alarm.

Several special factors have contributed to Russia's growth:

1. Her ability to borrow (or take over) techniques which were developed in the United States and elsewhere.
2. The shift from low-productivity agriculture to high-productivity industry.
3. The forced channeling of output into investment rather than consumption.
4. The relatively low base from which the increases have taken place.

The Russian steel industry illustrates the latter point. From 1949 to 1958 Soviet capacity to produce steel increased from 26 million tons to 59 million tons, or about 127 per cent. In this country the expansion was from 96.1 million tons to 147.6 million tons, or about 54 per cent.

Although the percentage increase in this country was far smaller than in Russia, our capacity to produce steel was enlarged 51.5 million tons, as compared with an increase of 33 million tons capacity for Russia.

The situation in many other industries is similar.

It is to meet the challenge of Russian growth and to expand our own programs for health, education and other services, that we are urged to step up our growth rate to five per cent a year.

It should be noted that we would have even more goods and services to share if the growth rate could be increased to six or seven per cent.

Unfortunately, wishing does not make it so.

Let us examine exactly what is being proposed.

Expansion rates compared

At first glance, the jump to five per cent appears so small that we should expect little difficulty attaining it. Actually, the difference is tremendous. It is helpful in this connection to indicate what these numbers mean.

► A three per cent growth rate would double our real national output in about 24 years.

► A four per cent growth rate would double output in 18 years.

► A five per cent annual growth rate would double our total production in 14 or 15 years.

Let's look closer at what these growth rates mean:

Three per cent: In dollar terms this would mean that the current \$467 billion gross national product would become \$950 billion in 24 years and roughly \$1.9 trillion in 47 years.

Four per cent: In 18 years our total output would reach \$945 billion, and in 36 it would be \$1.9 trillion. In 54 years output would become \$3.8 trillion.

Five per cent: The \$930 billion total would come in less than 15 years. In 29 years the total product would be \$1.9 billion. In 43 years

we'd reach $3.8 trillion, and we'd exceed $7.5 trillion in 57 years.

It is clear, therefore, that there is an enormous difference between a three per cent annual growth rate and a five per cent rate.

What causes growth

Many forces affect and determine the rate of growth in the national output.

But the total reflects the increase in the number of hours worked by the labor force and the rise in output per man-hour.

Our past growth has resulted from an increase in man-hours at an annual rate of a little less than one per cent per year and an increase of output per man-hour averaging a little more than two per cent per year.

Let us look at future prospects for these two factors.

The total number of man-hours is determined by the size of the labor force and the average number of hours worked or paid for per week. Here is a projection of the labor force through 1975:

	Female *millions*	Male *millions*	Total *millions*
1955	20.9	48	68.9
1959	22.6	48.6	71.2
1965	26.5	52.9	79.4
1975	31.7	60.9	92.6

In the decade ending in 1965 the labor force is expected to increase 15.2 per cent. For the next decade an increase of 16.6 per cent is expected.

If the average number of hours per week is not changed this would mean an annual increase in man-hours of approximately 1.5 per cent per year.

But some small reduction in the average hours worked each week is probable. Historically, our economy has seen a decline—from a 54-hour standard work week in 1900 to 48 hours in the 1920's and 40 hours in most industries since the late 1930's.

Some industries, including printing and publishing, construction, brewing, and apparel, already have a standard work week of less than 40 hours.

Various projections suggest an average work week of 35 to 37.5 hours by 1970. The net effect of these changes would be to reduce annual increase in total man-hours from the 1.5 per cent mentioned above to 1.25 per cent.

Future prospects

If these projections are realized, output per man-hour will have to rise approximately four per cent a year to reach a five per cent goal.

The key question, therefore, is: Can we increase output per man-hour by about four per cent each year? It appears doubtful.

According to studies by the National Bureau of Economic Research, the average annual increase in output per man-hour for the entire private economy has been 2.4 per cent since 1889. But the growth has not been uniform. In the 1919-29 period it was 3.5 per cent. Such an acceleration in the rate of

2% difference in annual growth rate makes surprising results

a **5** per cent growth rate would double our real output in **15** years

a **3** per cent growth rate would double our real output in **24** years

Productivity gains are high on the farms but low in service industries

productivity gains in a postwar period is not unique. Such gains reflect a catching up for the wartime lags and applications of technological gains developed during the war.

Since 1947, output per man-hour has increased an average of three per cent per year, in spite of a spectacular 7.1 per cent rise in 1950; 4.1 per cent in 1953 and 4.4 per cent in 1955. Sandwiched in between these years were 1956 with only a 0.6 rise and 1958 with 0.8.

The slower growth after World War II (three per cent) compared to the post World War I period (3.5 per cent) was not due to lack of investment. Since World War II, we have put more than $335 billion into plant and equipment—which suggests that those who would count on technological advancement, particularly automation, to bring us to a five per cent growth may be overly optimistic, although these factors will undoubtedly contribute buoyancy to the rate of gain just as in the past.

In the postwar years, too, research and development spending has risen from less than $500 million before World War II to slightly more than $5 billion in 1955 and about $10 billion currently.

But not all research expenditures are designed to raise man-hour output. They may result in new and improved consumer goods, such as drugs. Nevertheless, it might have been anticipated that these large expenditures for research and new plant would have brought larger productivity gains than they did.

Agriculture also has made a significant contribution to postwar gains in output per man-hour. From 1947 to 1958 farm output per man-hour increased 110 per cent, or at an annual rate of seven per cent. Total output per man-hour for the private economy also is stimulated as workers shift from agriculture to industry. In 1947, agricultural employment accounted for 15.7 per cent of the private economy, while in 1958 it accounted for only 10.4 per cent of the total.

It is estimated that the shift of workers from farm to nonfarm employment has accounted for almost one fourth of one per cent of the annual increase in output per man-hour in the private economy. With agriculture accounting for a relatively smaller share of our total private economy, it is doubtful that productivity in the total private economy can expect as much future increase from agriculture as it has had in the recent past. It also is questionable that agriculture will continue boosting productivity by seven per cent a year in the years ahead.

Where productivity lags

Some significant drags on productivity should not be ignored.

For example, output per man-hour in the service industries has lagged behind the rest of the economy—and a larger proportion of workers are in service industries today than at any previous time, as shown by these figures:

Per cent of total nonagricultural employment

	Trade, finance, service, etc.	Government	Combined total
1929	35.3	9.9	45.2
1939	37.4	13.2	50.6
1957	38.3	14.6	52.9
1958	39.4	15.6	55.0

A relative increase in employment has taken place in the government sector as well as in other service areas such as trade, finance and miscellaneous services.

The advance in output per man-hour in the nonservice industries has been a major factor contributing to the increased emphasis in our society on such services as education, medical care and travel. The increases in output per man-hour in farming, mining and manufacturing have enabled our population to enjoy more goods and services.

Output per man-hour in the service industries, however, has risen more slowly than in the total private economy. Personal services such as haircuts, painting and plumbing have increased in cost substantially over the past few years. It is clear that, in these and other service industries, output has not increased significantly. In some areas it may be declining.

While some developments point toward a higher output in retailing and wholesaling, this, too, is a lagging area. Currently, about 17 per cent of total employment is in this part of the economy, and it adds about the same proportion to our national income. The long-term rate of gain in output per man-hour in this sector has been about one per cent.

Moreover, in manufacturing there has been a significant shift in nonproduction workers in recent years, accompanied by a slowing up in the rate of gain in output per man-hour. Thus, between 1947 and 1957 the increase in output per man-hour in manufacturing for production workers was 46 per cent. For all workers in manufacturing it was only 30.8 per cent. The annual rate of increase for production workers was 3.9 per cent and for all workers only 2.7 per cent. This trend toward more nonproduction workers is continuing. In 1947, production workers accounted for 83.7 per cent of total employment in manufacturing; now they account for 75.8 per cent.

With such major areas lagging in productivity gains, the more dynamic areas would have to be stepped up terrifically to achieve the required four per cent rate of increase in output per man-hour for the entire economy.

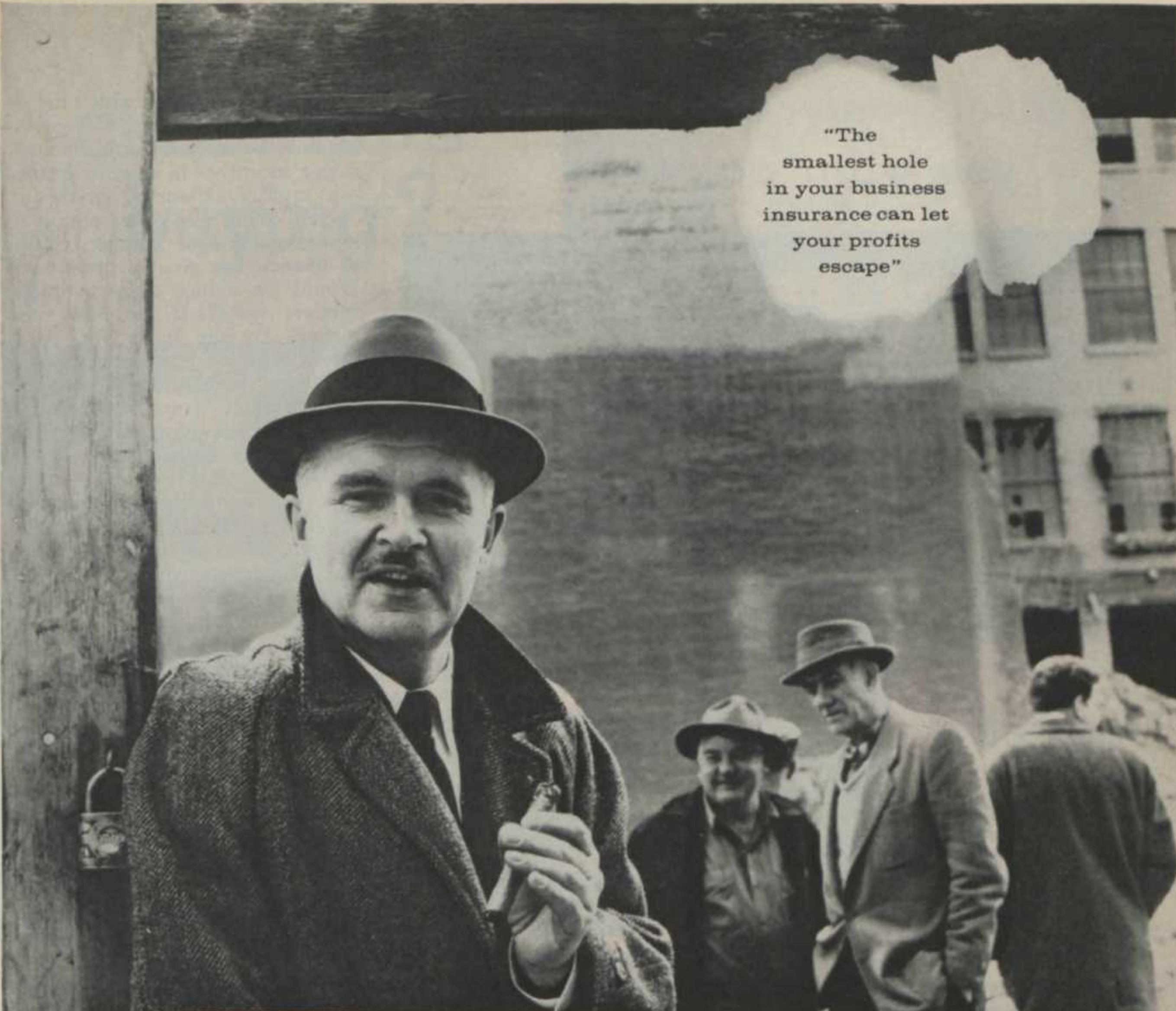
Neither the postwar experience nor our historic record suggest that such a rate of increase will be easily attainable.

How to boost productivity

To step up the rate of gain in man-hour output, it will be necessary to increase the volume of investment. In the past there has been a fairly close correlation between increases in output per man-hour and new investment in machinery. Prof. Wassily Leontief of Harvard, who recently returned from Russia, points out: "From 1952 to 1957 the Russians invested something above 30 per cent of their gross national income, while the corresponding rate was between 15 and 17 per cent for the U. S."

A greater volume of investment would require a higher rate of savings. It is only as we forego current consumption that the seed corn of future productivity gains can be created.

This would mean, of course, that consumption would have to grow less rapidly while savings and new investment would have to be accelerated very sharply. Such a shift in the use of our resources could create a significant distortion in the economy since our industries are now geared to meet the types of demand and the distribution between con-



(Based on company file #848-8460)

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* * *

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ECONOMIC GROWTH

continued

sumption and savings which has developed over the years. Moreover, a lag in consumption would remove a major incentive to new investment—a rapidly expanding market.

How, then, would we obtain the higher volume of savings required to finance the greater investment? Would we induce them by higher interest rates? If so, how much higher? By tax incentives? If so, how does this affect our goal of balancing the budget? Or would we force savings through government edict and thus change the nature of our economy? It is not easy to step up sharply the volume of savings in an effort to expand productivity. Inevitably, the actions taken would involve government spending—and with it a new wave of inflation.

But inflation is an enemy of growth, not a facilitating agent. As prices rise, the willingness to forego current consumption and to save is reduced because of the uncertainty created as to the future value of our savings. Thus, if we try to stimulate growth through inflation, it is probable that the net effect will be to slow up growth.

A look at the future

On the basis of our experience to date there is no support for the projection of a long-term rate of growth of five per cent for our economy.

In some years, particularly when we are recovering from recessions, increases of five per cent or more will be recorded, as in the past. But such sporadic instances must be distinguished from a sustainable rate of growth of that magnitude.

The actual rate of growth in the years ahead will depend in part upon our attitude toward more leisure time. If we insist upon taking part of our productivity gains in more leisure time, then it is probable that a growth rate of three to 3.5 per cent is the most realistic projection we can hope for.

If, on the other hand, there is no increase in leisure time, a rate of gain somewhat higher—but probably less than four per cent—can be within our reach.

While such a rate of increase falls far short of the hopes of the five per centers, it still represents a tremendous achievement. It would mean a doubling of our national output in 20 to 25 years.

—JULES BACKMAN
Professor of Economics, New York University

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TAX CUT

continued from page 41

fiscal '60 will be about $600 million more than was indicated when the budget for '60 was sent to Congress. This indicates an estimate now of revenues of $77.7 billion rather than $77.1 billion although we will not have a new official estimate until the budget review after Congress adjourns.

On the other hand, indications are the expenditure for interest in fiscal '60 will be $500 million more than was first estimated.

So we may have the same surplus —probably about $70 million or so. Present estimates are that the interest cost to the federal government for fiscal '60 apparently is going to be $1 billion more than for fiscal '59.

That gives you some indication of the problems we face if we operate at a deficit and continue to increase spending.

Can economic growth lead to future tax cuts if spending can be held down?

The answer, of course, is yes. If spending can be held at about current levels, if our total economic output continues to increase, we can look forward to yearly increases in our tax collections. Obviously we should begin then to have a margin that would allow us to consider recommending some over-all tax cuts.

That is all based on the ability, however, to keep our expenditures under control.

Does the Administration still favor using part of any surplus to apply against the debt?

We would, of course, have to answer the question as to how much to apply when we get a surplus that we could actually use. We would want to see what the situation was at that time. Certainly we must reduce the debt. We cannot tolerate just allowing it to increase and increase, or just to accept it at the present level with the thought that it never can be made lower.

What would you consider a major tax cut?

A major cut would be one in the billions.

The Treasury favors combining cuts for all taxpayers in any tax program. We feel that, it we reach the point where we can foresee a surplus of several billion, we would favor a cut which benefited all taxpayers.

Would closing tax loopholes permit lowering of rates?

The Treasury is always interested in seeking out loopholes if they exist.

I don't think the Ways and Means inquiry is aimed at closing loopholes as such. I think it is aimed rather at really finding out whether we might not have a better tax setup by eliminating some of the exclusions, deductions and credits and at the same time reducing the rates.

For example, the average tax collected from individual taxpayers runs about 13 and 14 per cent. That is what we actually get on the average even though the starting rate on net taxable income is 20 per cent and runs up to very high rates in the upper brackets. The thought is that maybe we could reduce the rates but not allow some of the exclusions, deductions, and credits we have now.

Do you think that more fairness could be built into the tax system?

There is some feeling that the same dollar income should pay the same amount of tax. That isn't true now for many reasons.

If your income comes from capital gains, it will probably be taxed at a different level than if it comes from personal earnings; if you are 65 years of age, because of an additional exemption, you pay a different tax than if you are 21; if you are unmarried you carry a different tax burden than if you are married. There are all sorts of differences in our system.

I think it's a question of making certain that a lot of these things which have come into our system over the years still have a reason for being there. It is a matter, too, of making clear the reason for the various differences and having them fully understood. For example, there are certainly reasons why you want to give some tax advantage to older people who have heavier burdens incident to old age.

Mr. Scribner, do you expect the administration of the tax laws to be tightened?

I wouldn't want to answer "yes" and thereby give an indication that there are major problems in enforcement at present. By and large, we have good administration of our tax laws. We are trying to make the laws more clearly understood, trying to make the filling out of tax returns easier and to improve taxpayer assistance. We are adopting new methods and machines that will allow our people to do the tax collecting work more efficiently and cover larger areas with the same manpower.

The American people do a splendid job in computing and paying their own taxes. Some few do try to evade their taxes. They get the publicity and sometimes we have an erroneous impression that there is a great wave of violations.

I hope we can always keep our system geared to the voluntary basis with the recognition of the general honesty of our people, but with a program that will vigorously pursue those who don't pay their taxes in full. Every honest taxpayer must be assured that he is not being discriminated against by any laxity in getting after the fellow who is not paying his full share of the load.

I hope the day never comes when we have a tremendous army of tax investigators.

What is your philosophy on the need for major tax revision?

I think that the American people are carrying a heavy tax burden.

In many instances, high taxes do have an effect on personal and business plans which perhaps retard expansion and slow business activity. Also high taxes take from individuals money that they need for educating their children, taking care of their own old age, and to care for many other personal problems. We certainly ought to strive to let people have more of their own money to spend as they want rather than taking it away in taxes and then have to give benefits and relief because they haven't been able to provide for themselves.

Do you think a higher rate of economic growth could be achieved now if tax rates were lower?

The President said earlier this year: "Some tax reforms and downward tax adjustments will be essential in future years to help maintain and strengthen the incentives for continued economic growth."

What kind of tax revision would you suggest?

The suggestion of the Ways and Means Committee is worth pursuing—that is, that we take a good look at our basic tax structure to determine whether some change would produce the same total amount of tax or maybe more without increasing the rate.

Let's take just one area, for example. We now allow a deduction of amounts paid for local and state taxes. This means that the United States government loses revenue each time taxes are raised at the local level. If it is a state

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tax on a profitable corporation, it will cost the United States 52 per cent of the added tax. Thus a dollar increase in state taxes as far as corporations are concerned means that the taxpayer is paying 48 cents and 52 cents shifts from federal taxation to state taxation.

Perhaps this is an area that needs to be looked at. It has been suggested that you shouldn't allow any deduction for state and local taxes because of this problem, as well as others. Obviously complete disallowance isn't a solution, because we can think of situations in which people would have more taxes to pay in total than their entire income. But that is the kind of problem which needs to be studied and reviewed.

Another area that people are concerned about is the allowance of expense account deduction. Drastic suggestions have been made that all expense items in certain fields be eliminated, not be allowed at all. Again, I think we need a thorough study of all points of view before we can come up with any basic conclusions. In some industries, certain types of expenses are essential. It's pretty difficult for anyone to sit in Washington and say you can run your business differently than you have been running it.

The thing that you need to try to get at, of course, is personal living items that are improperly charged as business expenses.

How about allowances for depreciation?

It is certainly true that in some cases Bulletin F rates of depreciation do not permit recovery of cost at a rate which adequately reflects obsolescence. There is, however, a good deal of misunderstanding, I think, about the depreciation area. You are entitled on items which you use in your business to take the depreciation which actually reflects your business experience. If you use a piece of equipment and it is worn out at the end of five years and abandoned with no salvage value, you can depreciate over five years. You can do that regardless of what the experience generally in the industry might be. Bulletin F is only advisory. (Bulletin F lists tables of suggested useful lives of depreciable property.)

A good many people argue that they ought to be able to charge depreciation, not on their own cost of the items but what it would cost to buy new equipment to replace that which is wearing out. In other words, depreciation would be based not on original cost but on replacement cost. This would open very difficult problems in determining in each instance what type of machine could adequately replace the old machine. Most new machines not only have capacity to replace the old machines but to do two, three or four times as much work. I don't see now a proper measure for that kind of a problem.

We have given a good deal of attention to depreciation problems. Business has also. We are working and consulting with them and with the committees of Congress. We are searching for some changes that reflect actual business experience and would be a little easier particularly for small businesses to apply than the present rules.

Is it true, Mr. Scribner, that Bulletin F will not be revised?

We still have the whole Bulletin F problem under consideration.

There is no certainty at the moment that it will be revised.

Do you expect the user charge principle to be adopted more widely to bring in revenue for the services that the government provides?

Yes. Every effort should be made to do that. States are having some success with that and there are many areas where the people who use the facilities or services ought to bear more of the actual cost rather than having it spread generally over the whole public by taking the cost out of the general revenue.

Have you studied what types of user charges might be levied?

Yes. Our tax people are conducting studies all the time. No study has been made recently with the thought that it is going to lead in the near future to some announced program on our part.

Does the Administration still have hopes of turning back any activities or services or programs to state and local governments?

Yes, we do. As a matter of fact, we think that this is one area in which some real progress can be made. We believe that the people generally are not as fully advised on the possibilities as they need to be. Certainly if you can demonstrate anything in government, you can demonstrate that when you keep the spending right at the local level, you get more direct supervision of that spending.

The problem has been, of course, that every state wants to be sure that, as the program comes back, they don't suffer a loss of funds. They want to be certain that the tax that is turned back will pay them as much as they have been receiving from federal grants. Because the states vary so much in their economies and their income, that is a difficult thing to legislate.

There is some concern that, if certain programs are turned back to the states, there won't be as much pressure behind them as there is on the federal level. Some people object for that reason. So, I think we need to find a formula under which the states won't lose anything on the turn-back. We need also to make it clear that this is not an attempt to destroy or eliminate any programs. It is rather an attempt—instead of taking the money to Washington and then feeding it back—to allow the money to stay right in the states and let the states run their own programs.

Is this being worked on now?

Yes, the Joint Federal State Action Committee meets frequently. There was a meeting here within the past month. Both on the state and on the federal level they have working groups looking into various areas. One group is working on the whole question of estate taxes, whether or not some change could be made to leave more revenue to the states.

Do you see something concrete coming in the way of suggestions and recommendations?

Some suggestions have been made already to turn back a certain part of the telephone tax and to have two or three programs taken over by the states. The Committee would like to see these adopted. They would like to obtain legislation marking progress in the proposed area before they move into other areas. **END**

OUTLOOK

continued from page 36

sales rate in the immediate future.

Jobs: Fifty-two per cent of the spokesmen for large companies expect employment in their firms to remain at about present levels over the coming 12 months. Forty-three per cent predict an increase. Of the smaller firms, 51 per cent predict that employment will stay about the same; 42 per cent forecast a rise. Fewer than 10 per cent of the executives in all size classifications feel that they will have to reduce the number of their employes.

Business spending: The survey shows that business plans heavy outlays for product improvement, new product introduction, research and expansion. Many executives reporting a decline or leveling-off of such expenditures emphasized that they have just completed or are about to complete expansion or improvement programs.

Prices: Fifty-five per cent of the officials of large companies predict that their product or service price level will not change in the coming year. Of the medium-sized and smaller firms, 57 per cent expect present prices to be in effect a year from now. Among large companies, 37 per cent predict a price rise. Among the mediums and smalls, 38 per cent expect their prices to climb.

(For another view of the price outlook, see page 14.)

Profits: Fifty-three per cent of the executives replying from larger companies say their profit per dollar of sales a year from now will be about the same as today. In the smaller companies, 52 per cent say the present rate will hold through the next 12 months.

Estimates of expected sales increases varied. In the industrial classification, for example, the range was all the way from two per cent at the low point, to 50 per cent at the top. A fifty per cent increase was the highest estimate made by any company in answering the sales question.

Estimates of increases in company employment ranged from one to 15 per cent. Projections of increases in product labor costs showed a range of from one to 10 per cent. Price increases were estimated at from one to 10 per cent.

Companies covered in the survey represent the major divisions of business and industry—industrials (manufacturing and mining), mercantile enterprises (wholesaling and retailing), banking, public utilities, life insurance, transportation, and others.

Does optimism and/or pessimism tend to be stronger in some fields than in others?

The results show that optimism —at least so far as sales prospects are concerned—is evenly distributed. The sole exception to this is the industrials category. There a few of the companies expect their sales to decline. These companies include a metal fabricating concern, an aircraft-missile production company, a lumber manufacturer and a major steel company. The latter reports through its vice president and comptroller that it anticipates a five per cent decline in sales over the coming 12 months. The company spokesman identifies "the excess capacity of the [steel] industry" as the most significant deterrent to company expansion.

The NATION'S BUSINESS survey was conducted by mail. Questionnaires were sent to men in 654 large firms and 375 medium-sized and small companies. Replies came back from 160 large-company executives and 86 officials of smaller businesses. Of those responding from large firms, 62 are presidents, 39 are vice presidents, 10 are treasurers and nine are board chairmen. Respondents from the smaller companies include 46 presidents, 18 vice presidents and two board chairmen. Other answers came from financial officers, general managers, economists, administrative assistants and corporate secretaries.

The large companies selected for the survey are the nation's largest for their line by such standard measurements of size as sales, assets and operating revenues. The medium-sized and small companies were included to provide a cross-check against the estimates of big-company men. The projections of the two groups show a surprising degree of agreement.

Three questions in the 17-question survey related to cost-cutting intentions. The object was to determine whether businessmen are still as determined to economize in their operations as they were in the 1957-58 recession. The answers suggest that most companies—particularly the larger firms—are determined to maintain a close watch on costs despite the upturn in business.

Seventy per cent of those responding from large businesses say they intend "more vigorous" cost-cutting in the next 12 months than they practiced in the recession. By contrast, only 48 per cent of the smaller companies call their cost-reduction plans "more vigorous."

Roadblocks to business growth

One question in the survey asked: "What one roadblock would you like to see removed as an immediate aid in the expansion of your business?"

The answers varied.

Transportation company executives hit hard at the constraining effects of government regulation, featherbedding practices by unions, and "subsidies" or other advantages granted to competitors by the federal government.

In the industrials—from which over-all response was greatest—taxes, inflationary wage increases and competition from low-payroll foreign producers appeared as major irritants.

Life insurance company spokesmen say inflation and federal taxation are their biggest obstacles.

Here are some typical coments:

President of a paint manufacturing concern: "Tax reduction for corporation."

Vice president of a pig iron company: "Foreign imports sold at prices well below domestic prices."

President of an electric utility holding company: "Threat of government-owned and subsidized power production, transmission, and distribution facilities."

Comptroller of a chain of variety stores: "Realistic depreciation allowance for tax purposes."

President of a manufacturing company: "Apathy, indifference and inability of the average worker to understand basic evil of wage inflation."

President of a beer-distributing firm: "Need emergency excise taxes put on beer during World War II taken off."

Biggest problems as managers

The survey asked: "What do you think your biggest problem as a manager will be in the next 12 months?"

Though replies varied, agreement was general that the cost-price squeeze and various forms of labor pressure would pose substantial problems in the coming months.

One executive, head of a company in the agriculture field, answered simply, "Plenty."

A considerable number of executives in companies of all sizes emphasized the need for improved efficiency to offset the rising cost of labor. Union negotiations, and the threat of labor trouble, were men-

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. . . a hand in things to come

Complexion care for apples

Apples and peaches are the most tempting when they look best. Yet all season long, fruits are exposed to attack from hungry insects that can stunt growth and leave ugly blemishes on the surface. This battle of the bugs is now being won with a remarkable CRAG insecticide called SEVIN. Highly effective against a wide range of insects, it helps fruit trees produce a crop with healthful beauty that is more than skin deep.

Many modern chemicals are used to do the work for you on the home garden front, too. A complete line of garden products is available under Union Carbide's well-known EVEREADY trade-mark. There are dusts to keep delicate roses or tomatoes free from destructive bugs or fungus . . . weed killers that put an end to a back-breaking chore . . . and an all-purpose aerosol insecticide that has a lethal effect on insects in the garden or inside the house.

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UNION CARBIDE

...a hand in things to come

tioned by a number of men in manufacturing. Among smaller companies, getting and holding business seems to be a more serious problem than in larger firms. Finding capable personnel, training and motivating them were problems mentioned by other executives.

Difficulties arising from new product introduction and the competition for new markets were cited frequently by large-company spokesmen, less frequently by officers of smaller firms. This undoubtedly reflects the large companies' greater investment in product research.

Here are some sample comments:

President of a typewriter and data-processing equipment firm: "Determinations relative to selecting which new product development to introduce to market."

Vice president of a coal machinery and oil field equipment company: "To help keep new product developments focused toward really fruitful targets."

President of a large manufacturing company: "Coordination of a new product development program with merchandising and production."

President of a company making automobile frames: "Finding new businesses to utilize cash and replace lost automotive business."

Life insurance company executives stressed personnel problems—particularly the training of leadership cadres for the future.

A railroad executive said that "showing a profit while attempting to live with passenger business," would be his biggest headache in the months to come.

The president of a large instrument manufacturing company said his biggest problem in the next 12 months will be combating the "attack on industrial profit structures by well-financed professional labor."

On balance, the NATION'S BUSINESS survey seems to produce this composite image of today's top-echelon business executive: He is confident of business growth, and of growing opportunities for his company. He feels that strong expansionistic forces are at work but he worries nonetheless about the insistent upward pressure on wages and the effects which this has on all costs, prices and profits.

He is a tax-weary American who has one eye cocked on the sharper domestic and foreign competition of the future and the other on the things he must do to put his own house in fighting trim for that always fast-approaching time. END

Here's formula for **surer sales**

Modern marketing means revamping policies, products and personnel

COMPANIES OF ALL SIZES can do a better job of selling their goods or their services by effectively adapting the much-heralded "marketing concept."

The concept fits well into the operations of large firms, but it offers important advantages for smaller businesses, too. In fact, a one-man company—with its more modest problems and operational scope—can achieve an edge over larger competitors by applying the concept. Being marketing-minded, contrary to popular belief, does not require huge investment or an elaborately contrived organization.

What is the so-called marketing concept? Why is it important? And how can you make best use of it?

The concept is not really new. Only the attempts to define and organize it are new. Such pioneers as John Wanamaker and J. C. Penney understood it and practiced it.

The marketing concept means that a company starts its product thinking with the studied needs or expressed wants of customers and prospects. This is opposed to the old philosophy that you first invent the product, then make the market. But though marketing is simple in definition, it is not always so simple in application.

An umbrella-type concept, it embraces everything a company does to make its products more salable and then to sell them. Like all new ideas, initiating the marketing philosophy in a company is both constructive and destructive.

It is constructive to the extent that the objectives are to sell more goods at a greater profit and to enable the company to move faster and with greater flexibility against competition. It is destructive in that, properly functioning, it replaces old ways of operating. Along with the old ways, it may to some extent also eliminate the jobs, prerogatives, and status of people responsible for operating in the old way.

Example: In the past, production was the dominant function in nearly every manufacturing company. Under the new marketing concept, however, production is important only in relationship to what can be sold at a profit. This disturbs production managers who find that their ideas on what the company should do are not accepted as avidly as they once were.

The confusion is compounded by the fact that most companies find it necessary to go through periods of groping before they find the marketing formula that will work best for them.

One company, usually considered a pioneer in formal development of the new concept, is said to have taken between five and seven years to get itself completely reorganized into a satisfactory new structure. Other companies report that the reorganization took between three and five years to complete. As an example of what may be involved, one large corporation, with many product divisions, changed its basic division organization four times in less than three years.

But enough progress has been made to begin to suggest a few principles. Problems inherent in carrying through a reorganization for a marketing operation are beginning to stand out. Enough experiences have been logged that any company initiating a new program can profit by considering them. Principal factors to be resolved initially are these:

- The objective sought by a marketing reorganization.
- The form of management best suited to the new operation.
- The functions to be included under marketing.

Specific answers to any of these will, of course, come from the specific nature of your business and the products you sell. Your initial organization for marketing will prob-

ably not be your final organization. Experience with making the concept work should breed new ideas and refinements as you go along.

Objectives

The marketing concept is not of itself an operating method. The concept is the belief that the best way to sell successfully is to sell what the customer wants in the way he wants it, when and where he wants to buy it, and at a price he will pay. The objective in setting up an organization, then, is to develop operating methods that will turn the concept into reality.

In line with the problem-solving principle of starting with what you have, you will want to study such factors as the profitability of your present product lines; the users of your products; depth of your markets; your comparative position in your industry; plant and production facilities; and, certainly, the personnel you have to work with.

Your present product lines: A prime advantage of a marketing operation is that it helps you build toward long-term net profits. This, however, depends somewhat upon the profit potential in the products you sell. You might find that some of your product lines should be substantially reduced or, if they are unprofitable now, discontinued. Conversely, a profit examination may suggest expansion or diversification of a particular product line.

Users of your products: Product analysis should include cataloguing all possible uses for every product in your line, because the uses will determine the markets. Each market will probably require a specialized marketing approach or field organization. It may even be necessary to establish separate sales and marketing groups for a single product of diversified uses. Many products, for example, are sold in small units to consumers through retail outlets, and in bulk to industry by way of industrial distributors. Therefore, a careful tabulation of uses, with a quantitative rating for each, defines the extent of consideration each product must have in the final marketing organization.

Depths of markets: Some products, particularly in basic raw materials, have such extensive potentials that it is difficult for the manufacturer to determine where he can stop in his efforts to market them. Steel is a prime example. According to Richard F. Sentner, executive vice president, U. S. Steel takes this approach:

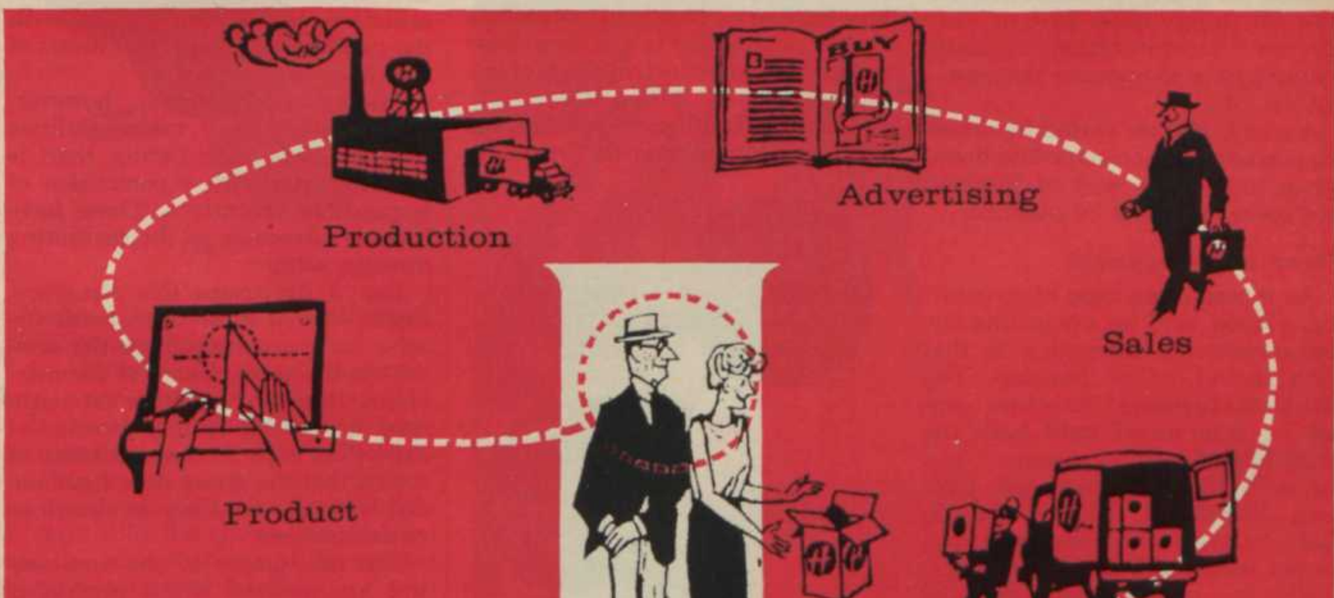
"We have found that it pays to exercise our marketing efforts far beyond the purchasing offices of customers who buy the products of our mills. We must be concerned about their customers . . . and often about their customers' customers. In fact, so far as U. S. Steel is concerned, the interest in our market extends to the home of the ultimate user of any product made of steel."

Comparative position in industry: There is a great deal of difference in the marketing approach of a company in a closely competitive field and one that is relatively independent. A company that chooses to stand alone in an industry can often outmaneuver and outsell much larger competitors by virtue of its ability to go it alone without regard to competition.

Physical facilities: Not only plant and production capabilities must be considered in designing a marketing operation, but even such sophisticated equipment as electronic data processing units should enter into it.

A prime requisite for an efficient

The modern marketing cycle begins and ends with consumers and their wants



New formula: surer sales

CONTINUED

marketing operation is facts and figures reflecting the daily or weekly progress in selling operations. Electronic data processing makes possible working knowledge you can apply today instead of two or three months from now. Such fast figures can be extremely useful for shifting strategy, gauging competitors' gains, finding marketing weak spots, and determining your company's position and direction in a hurry.

Your personnel: In many cases, personnel offer the most difficult problems in changing over to a marketing operation. By its very nature, marketing calls for the type of thinkers who can envision over-all operations and who are willing to give in one area in order to improve the whole. Older personnel, accustomed to the prerogatives and independence of the specialist, may find this adjustment difficult. A close survey of potential marketing personnel is, therefore, necessary. In the course of the survey, note should be taken of any outstanding capabilities, including specialist capabilities. As in any other form of management reorganization, initially you will have to organize the men—not the jobs.

A trial-and-error period for allowing personnel to accommodate themselves to the new way of thinking and operating must be planned.

Forms of management

As in any other type of structuring, a good rule for organizing the management of marketing is that form should follow function. The actual management structure cannot be determined until both the objectives of such management, and the activities to be managed, have been determined. Then it may be that the type of management you should adopt will be self-evident.

The two most common types of marketing management in use today are the committee and the marketing director. The considerations and advantages of each become evident by comparing them with the conventional management of distribution activities they replace.

Fig. 1 is a simplified representation of the conventional organization of four business functions. Although in every company there is an ultimate top in command of activities, in the day-to-day operations each function is left pretty much alone. Activities are coordinated on a selectively cooperative basis. If sales needs help from production, sales must ask for it. Production then decides whether it wants to cooperate, and to what extent. Advertising or research may be brought into the picture, but only if either of the two primary functions decides it wants them in.

In some companies, any lateral services desired must actually be purchased on a cost basis from another function. Therefore, fast-moving coordination is frequently impossible, and plans for marketing policies and operations can only be made on a slow basis.

In its simplest form, the marketing committee type of management, Fig. 2, is formed by giving the heads of the various functions involved the additional responsibility of coordinating, through the committee, their various functions and activities. Staff or management specialists may also be added to the committee to develop an effective pool of resources.

Dana C. Huntington, president of Dennison Manufacturing Company,

Fig. 1

explains the operation of that company's marketing committee as being based on his conviction that "marketing is the most important corporate function at this state of the company's development and it will be for some time."

Dennison's committee includes Mr. Huntington, who acts as chairman; the director of marketing, in charge of merchandising, advertising and selling; the general merchandise manager; director of research and development; assistant general merchandise manager; and the controller. The group meets twice a month to discuss products and make plans for them.

The advantage of the committee system is that, with unilateral responsibility for making marketing successful, many of the old barriers

Fig. 2

to interdepartmental cooperation disappear. The problems of communication between the functions are greatly reduced because each function is, through its committee representation, in constant contact with the problems, findings, and needs of the other functions.

Many organizations, however, prefer having their responsibilities pinned down more tightly than is possible even with a committee of responsible executives. These have become advocates of the marketing director setup.

Fig. 3 illustrates this structure. Beginning, in most cases, with the same basic organization as the committee, the management of the marketing function is further strengthened by adding to it a director of marketing with the responsibility of seeing that the group does function, and with the final say in decisions or arbitrations.

The advantages of one-man control are realized where marketing strategy calls for fast, decisive action. When Harold E. Churchill took over as president of Studebaker-Packard in mid-1956, he felt that the company's future lay in scrapping the big-car lines for easy-to-build small cars to sell at a lower price. This was a marketing decision pure and simple. In implementing it to build the Studebaker Lark,

Mr. Churchill maintained personal control of all operations.

Top management may also find that a marketing director simplifies operations from its end also. This was the case at the F. & M. Schaefer Brewing Company. President Rudolph J. Schaefer explains: "Before we organized our marketing department, I had to be the coordinator of sales, advertising, public relations, and market research. I realized I couldn't do justice to this job with my others. So I pushed the whole thing into someone else's lap and now have one man reporting to me instead of several departments."

A prime difficulty experienced in adopting the marketing director form of management is finding the right man for the job. Robert A. Huttemeyer, partner in Thorndike Deland Associates, New York executive-recruiting firm, says the requirements most frequently set up for a marketing director are these:

1. Ability to plan and coordinate the entire marketing activity on a profit-minded, businesslike basis.
2. Working familiarity with both manufacturing and research.
3. Sufficient knowledge of finance to judge merger and acquisition possibilities intelligently.
4. Ability to set up and carry out long-range plans for new markets.

Fig. 3

It is highly possible that any company lacking such a man, but desiring to go ahead with a marketing reorganization, could be forced to start with the committee system and the hope that one of the members can take over later.

Functions to be included

The functions to be included under marketing management involve so many variables that it is only possible to set up general considerations from which an individual company may draw its own conclusions.

Philip Morris, Inc., with a high-

(continued on page 74)

S P A C E challenge at Big Flats!

SAVED: 25 to 30% FLOOR SPACE. Corning does it with Pro-File cabinets and Mod-U-Ell work stations in its Industrial Engineering office. Pro-File cabinets fit where an equal number of conventional 4-drawer files could not—right in the aisle—yet provide ease of reference to filed material. Arrangement of Mod-U-Ell work stations eases work flow where there is interrelationship of jobs.

SAVED: 20% FLOOR SPACE. This unique continuous arrangement of Mod-U-Ell lets four workers, with interrelated jobs, carry on their work easily **without having to move.**

CUSTOM STATION IN A CORNER. The use of Mod-U-Ell furniture made possible the customizing of each work station to meet the requirements of special jobs at no more cost than the conventional desk and table arrangement. This is a Private Supervisory office.

VERSATILE MACHINE DESKS. As used in Corning's accounting office, the Y&E 7600-30FBR machine desk holds calculating machines. But—as illustrated below—the desk can also be used for other office machines . . .

ROOM FOR 2 TO 3 MORE WORK STATIONS! Mod-U-Ells used in Corning's Process Engineering section made expansion of the section possible without crowding, yet provided more actual working area through increased working surface.

NOW IT'S A TYPEWRITER DESK! Versatile 7600-30FBR machine desk is also used in Corning's Production Planning office, inventory control section. Notice the Pro-File cabinets for speed and ease of reference, plus the Y&E card record files.

Corning Glass Works takes available office space, tailors furniture and arrangement to get jobs done smoothly.

Here are office furniture and arrangement that challenge the imagination.

The furniture is by Y&E—and you can do almost *anything* with it! At the Big Flats, N. Y. plant, Corning Glass Works' Industrial Engineering staff used it imaginatively to *fully utilize* the space in the plant's general offices.

The Y&E Mod-U-Ell Line, for example, they used like building blocks—building on continuously, where possible, to save space. A desk top here . . . a pedestal there . . . files in here like so. Form fits function. Space is well used. All areas are comfortable, attractive, coordinated in style and color.

Y&E *Pro-File** cabinets were specified "for their space-saving aspects as well as ease of reference to filed materials," according to Mr. Robert S. Callaway, Senior Industrial Engineer at the plant. "The cooperation of Y&E sales representatives, as well as their dealer, F. A. Williamee & Son . . . did much to make this installation one of the finest in the company."

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volume, small-unit retail product, includes sales, sales promotion, traffic, distribution, advertising, marketing research, packaging, public relations, new product development and even warehousing under its marketing management.

Pepsi-Cola, which sells entirely through regional bottlers, is primarily a marketing service organization. As such, it provides advertising, promotion, new product development, new market development, and equipment such as vending machines and carton racks. Also included in the Pepsi-Cola marketing activities are such unique services as assistance on plant engineering for bottlers, mobile product control laboratories to maintain product uniformity, and public relations assistance to local bottlers in new plant openings.

Whirlpool Corporation, with 12 major electric appliances in its product line, includes sales, sales training, sales controls and forecasting, sales promotion, dealer and distributor relations, and new product planning in the marketing division. The Whirlpool marketing operation has grown from about 50 people in 1955 to 280 in 1959.

In examining these and other marketing mixes, the primary company activities being brought under the administration of marketing would seem to be sales, advertising, sales promotion, such customer-oriented factors as pricing, and research in both market analysis and product development.

Sales: The prime consideration in adapting an existing sales organization to the new marketing concept is largely that of determining efficiency and appropriateness of existing sales programs.

Ideal standards of sales operation must be set up, and accomplishments checked regularly against them. Activities of sales personnel, including prospecting and territory development, must be studied for their effectiveness against the overall objectives. Training methods may have to be overhauled to make certain the sales forces understand the new approach to selling as embodied in the marketing concept.

In some cases, salesmen will be given new responsibilities as the eyes and ears of marketing research in the field. Some sales training specialists feel that a salesman is basically a poor reporter, because he tends to be subjective rather than objective. This may mean that special training is in order if it is decided to make salesmen responsible for market or customer intelligence.

Advertising: A basic aim in adapting advertising policies to the marketing concept may be to obtain greater flexibility of effort. It is sound practice to plan advertising programs or campaigns on a long-term basis, but the actual content of advertising may have to take a shorter term approach. As an example, new product developments or innovations, competitive moves, and sudden shifts in buyer preferences can all be reasons for changing the advertising strategy.

Sales promotion: The specifics to be examined here should include both the relative roles and the expenditures for direct selling, sales promotional tools, advertising, and merchandising efforts such as dealer contests, sales incentive programs, and the other factors used in moving the products into the hands of buyers.

Pricing: This area needs almost full-time attention. Gone are the days when the maker of a product could determine his actual production cost and add an arbitrary percentage for profit to get his selling price. Today it is necessary to consider the relative desirability of the product against closely competitive or similar products; the customer-conceived values that may be purely intangible; and, of course, competitive prices. Then too, there are hidden costs in selling today. As examples: The auto makers, though closely competitive in prices, compete strongly in such variables as design and styling investments. Farm equipment makers compete in servicing facilities. All such extras must be allowed for in the price of any individual product.

Research: In the past 30 years, and particularly in the past five, research activities have grown in both scope and importance in businesses of all types.

In at least one company, Sterling Drug, the whole subject of marketing is summed up as research. James Hill, Jr., chairman and chief executive officer of the company, defines Sterling's marketing operation as ". . . studying and finding out what is the best product to introduce—weighing its chances against competition, and finding out the best way to advertise it."

This type of research is a combination of both market and product research.

To consider them individually, however, the fundamental purposes of market research are four:

To provide the basic factual information upon which all marketing policies can be formulated.

To provide basic facts for specific or short-term marketing campaigns.

To provide data for analysis and evaluation of the effectiveness and economy of specific marketing methods and operations.

To assemble all necessary statistical data and opinions which make market or sales forecasting possible.

The importance of having such complete information on a market is dramatically pointed out by the experience of a large paint manufacturer. Using only statistics on the value of construction in a state, this company sent in an army of personal salesmen purely on the basis that it was "good, prosperous territory"—which it was.

What the manufacturer did not know, because his facts were not as complete as they should have been, was that 85 per cent of the dwellings in that territory were brick.

The effort to avoid wasteful sales expenditures drives fast-moving consumer goods manufacturers to use continual evaluations of their customer markets throughout the life of a product. Pillsbury Mills, for one, has even been termed "marketing managed." In the case of a contemplated product, research is used to estimate the probable demand for the product. In the development stage, consumer research determines the product's best and most acceptable final form. Following introduction, a continuing study measures its progress. The result, according to Paul S. Gerot, president, is that: "Before we've put $500,000 behind a product, we're pretty sure it will go."

Product research also has four basic jobs to fulfill:

First, if a new product is being considered, research should define the needs or wants the product should be designed to fulfill.

Second, new products must be

suggested. This is done either by anticipating a need or by creative interpretations of basic customer studies.

Third, research must maintain a continuing study of the quality and value a product represents to a consumer in order to anticipate or head off competitive inroads. If a product gets into trouble, it is research's job to find out how much of the problem lies in the product, and how much is caused by outside pressures.

Fourth, if no products are in trouble, research should still study them for opportunities to redesign, to repackage, or otherwise to modify them for greater salability.

Most of the confusion encountered in applying the marketing concept in any company is people-caused. Would-be marketers can become so intrigued with the mysteries of unexplored markets and the opportunities to capitalize on them that they plunge into reorganizations and recommendations without regard for sound business practice, the objectives, or the personalities that have to be sold if the new operation is to succeed.

Market policies must take account of the fact that consumer demands are the origin of buying impulses, and that these demands are dynamic and changing.

It is possible that a company may already be as marketing-oriented as it can be for maximum efficiency and profit making even if it has never heard of the marketing concept. In that case, it would be foolish to make changes just to be in style.

Surveys and research findings do not automatically correct the conditions they may disclose. It is still necessary to suggest solutions. These, in turn, will have to be approved, adopted, and put into operation. Even a successful and well organized marketing operation is not foolproof.

Often it is just not possible to realize some of the theoretical advantages of a marketing operation. Even if the management is willing to commit the sums necessary there may be a time lag before the new concept starts producing.

It is not the mechanics of marketing that will pay off for you. It is what you use the mechanics to accomplish.—JOSEPH G. MASON

REPRINTS *of "Here's Formula for Surer Sales" may be obtained for 15 cents a copy or $10.15 per 100 postpaid from Nation's Business, 1615 H St., N.W., Washington 6, D. C. Please enclose remittance.*

Make words fit the job

Don't let hidden meanings block understanding

INCREASING EMPHASIS on the importance of communication as a business tool has led to a new awareness that everything management says evokes two reactions:

One is a train of thought.

The other is a feeling about that thought.

The way the listener feels inevitably influences the way he thinks.

Awareness of the importance of this influence has led to new interest not only in what we denote with our words but in what we connote with them, too.

As the dictionary describes "connote": "The word 'home' denotes the place where one lives with one's family; it usually connotes comfort, intimacy and privacy." But connotations also can be subtle and changeable. For instance, we can use the word "old" to connote warmth, as in "an old friend," or decrepitude, as in "an old man." It is vital to be alert, both when talking and when listening, for these inexplicit but sometimes crucial variations.

Understood and utilized properly, connotations help to produce maximum success in communication. Misunderstood or ignored, they are so many monkey wrenches in the works.

Dr. William V. Haney of Northwestern University's School of Business, has made a careful study of connotations. Besides teaching and doing research at Northwestern, Dr. Haney serves as communications consultant and trainer to the Federal Mediation & Conciliation Service, the Bureau of the Census, the Air Force's Institute of Technology, and several private concerns. It is his experience that control of the often hidden power of connotations is essential in communication.

His recommendations for achieving this control cover five points:

- Avoiding confusion of denotations and connotations.
- Understanding euphemisms and malphemisms.
- Allowing for variation in connotations.
- Using connotations to stimulate effort.
- Sharpening awareness of connotations.

Avoiding confusion

To make clear the distinction between a denotation and a connotation, Dr. Haney cites the terms "sirloin steak" and "piece of dead cow." You could use either term to denote the same object. It is what you want to connote about that object, the attitudes you want to express toward it, that provides your reason for choosing between them.

A young engineer recently learned the effects of such confusion in communications on the job.

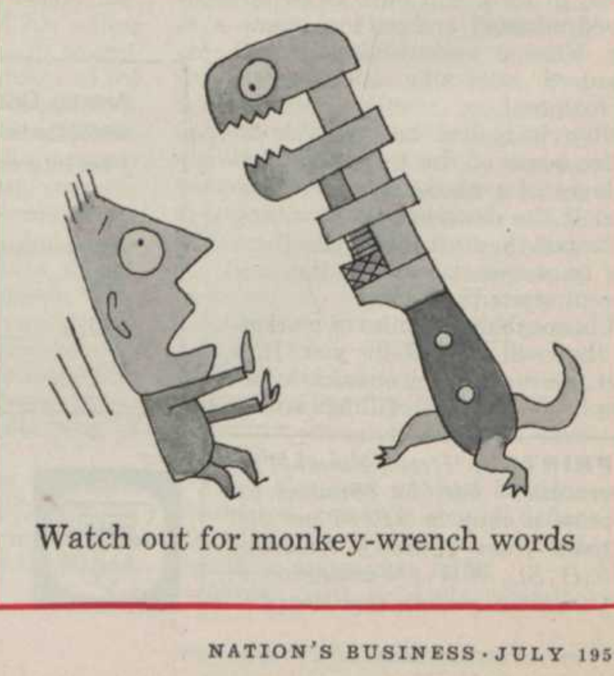
Employed by a tool and die works, he was assigned to study the plant's production procedures in general and to devise improvements. Tool and die men are the aristocracy of factory workers, and their foremen are of correspondingly high standing. The engineer was aware of this and took great care to show respect.

When he found one department where he thought he could make considerable improvement, he first set about making friends with the workmen and their foreman. Once he had gained their acceptance he got the foreman to call the men together so that he could outline his plans to the whole group. Because he thought that several of the men might resist change, he sought to allay their fears by saying:

"Of course, at this stage what I'm proposing is only an experiment."

The connotations of the word "experiment" were his undoing. The men not only dragged their heels but actively sabotaged his attempted innovations. Finally, the foreman went to the production manager. The gist of his complaint was that the engineer was trying to use him and his men as "guinea pigs."

You may be tempted to dismiss this as an unthinking reaction on the part of the men. But it was the engineer who sought to communicate something to them, not they to him. He wanted to make them



Watch out for monkey-wrench words

Bad can be tied to good

feel that he was proposing only tentative changes which would not become permanent unless they proved successful.

The word "experiment" does mean what he had in mind, but it also carries many connotations. Since the word was crucial to his purpose, it was up to the engineer to make sure that the men did not get so entangled with any of the word's connotations that they failed to grasp what he intended to denote by it.

Whenever you give great importance to what a word means, it is essential to make sure that its connotations do not distract your audience's attention.

Euphemism and malphemism

A euphemism is the use of an agreeable or inoffensive expression in place of a harsh or unpleasant one. The word "malphemism" has been coined to denote the opposite practice, the use of an unpleasant expression in place of a harmless one.

It is a euphemism to refer to an overweight woman as "pleasingly plump" or "stylishly stout." It is a malphemism to say that she is "disgustingly fat."

All of us frequently use these locutions. A neighbor's youngsters, for instance, might be energetic and mischievous. If we happen to like the neighbor or want to please him, we may refer to his children as "active, spirited, full of life." If we dislike him and are not reluctant to let him know it, we may describe his children as "wild, undisciplined, on the road to juvenile delinquency."

The purpose of the two types of expression is to communicate feelings about facts. We want and need to communicate both feelings and facts in business as in all other human activities. Even such simple attributes as colors can be made more pleasing to some tastes by referring to them not merely as black, red or green but as "onyx black," "carnival red" and "fern mist green."

The danger of the euphemism-malphemism method of conveying feelings about facts is that such expressions tie the feelings and the facts together so tightly that the former often obscure or blot out the latter.

A toy manufacturing firm which suffered a fire in its main factory offers an example. The blaze was extinguished fairly quickly, but it ruined a sizable part of the inventory and damaged a good deal of the production equipment. The head of the firm ordered that no expense be spared in repairing the damage and getting capacity production under way again. His production manager promised to have the plant going full blast within a month and hoped it might be sooner. The company head then called his sales headquarters in a distant city.

"We had a little fire," he told his sales chief. "It got some of our inventory, and it'll hold up production for a little while. May delay some deliveries a little. But we're doing our best to catch up."

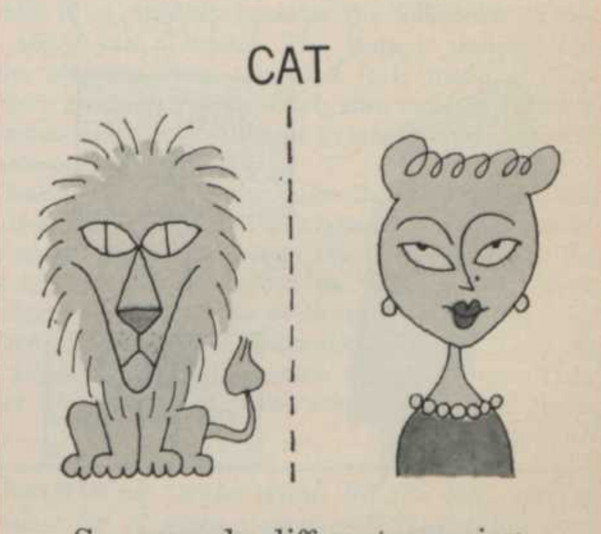
To get the full euphemistic effect of this, note that the word "little" is used three times. The company head quite naturally wanted to minimize news of delivery delays lest they cost him a great many orders. His statement so thoroughly minimized them that the sales chief thought he was being told that delays would be so small that there was no need to change promised delivery dates. He didn't even bother to tell his salesmen about the fire.

In the end it took a month to resume full production, another three weeks to replace the lost inventory. Many deliveries were delayed for several weeks. Some of the firm's best customers were so inconvenienced by this that they went over to competitors. Two of the top salesmen quit over resentment at not being told of the delay which had gotten them in bad with their customers.

All this was a result of the company head's obscuring the *fact* that delay was inevitable by linking it with his *hope* that the delay would be brief.

Allowing for variations

Most words may be used to denote several different things. Even so simple a word as "cat" may label a



Same word—different meaning

member of any of more than a dozen different species of animals, a spiteful woman, a tractor, a special kind of tripod and many other objects.

If you are aware of these various denotations, you try to make sure that your audience understands which one you are using. You use additional words to create a context which makes clear whether you are referring to a household pet, a lion, a woman or a machine.

It is more difficult to limit the connotations of your words because they can vary widely from one person to another. Misunderstandings over connotations can come about in three different ways.

1. Words connoting little or nothing to you may connote a great deal to others.

One example of this is a line used by airline stewardesses in the early days of commercial flying.

"We're approaching a *storm*," they would say. "You had better fasten your *safety* belts. It will be less *dangerous*."

To the stewardess, who was used to them, the three italicized terms connoted nothing fearsome. For many stewardesses the slight fillip of danger was part of the job's attraction.

For the passengers those terms carried a load of frightening connotations.

To avoid the bad effect, the airline managements trained their stewardesses to get across the same information minus the fearsome connotations:

"We're flying through some *turbulence* now, and if you fasten your *seat* belts you will be more *comfortable*."

2. Words connoting much to you may connote little to others.

Whenever you feel that someone is taking you too literally, the explanation is likely to be that your words connote a great deal for you but are comparatively bare of connotations for him. The lurking possibility of this makes irony and sarcasm dangerous in business communications. For success they require that the hearer ignore what is denoted and concentrate on the connotations. If the words don't lead him to do this, the communication misfires.

The head of a large company has told on himself a story which makes the point clear. Before making his final decision on a proposal to move to new offices he called his top executives for a last discussion of the idea. All were enthusiastic except the company treasurer who insisted that he had not had time to calculate all the costs with accuracy sufficient to satisfy himself that the move was advantageous. Annoyed by his persistence, the chief finally burst out:

"All right, Jim, all right! Figure it out to the last cent. A penny saved is a penny earned, right?"

The intention was ironic. He meant not what the words denoted but the opposite—forget this and stop being petty. For him this was what his words connoted.

For the treasurer "penny saved, penny earned" meant exactly what it said. He put several members of his staff to work on the problem and, to test the firmness of the price, had one of them interview the agent renting the proposed new quarters without explaining whom he represented. This indication of additional interest in the premises led the agent to raise the rent. Not until the lease was signed did the agency chief discover that one of his own employes had, in effect, bid up its price.

It happened that he was big enough to accept the blame and to tell the story as a joke on himself. This it was. When you make your words denote one thing and connote the opposite, it's up to you to make sure they do the same for your audience.

3. Words may connote one thing to you and something quite different to others.

A nurse's aide enters a hospital room and notices that the patient has eaten little of his dinner.

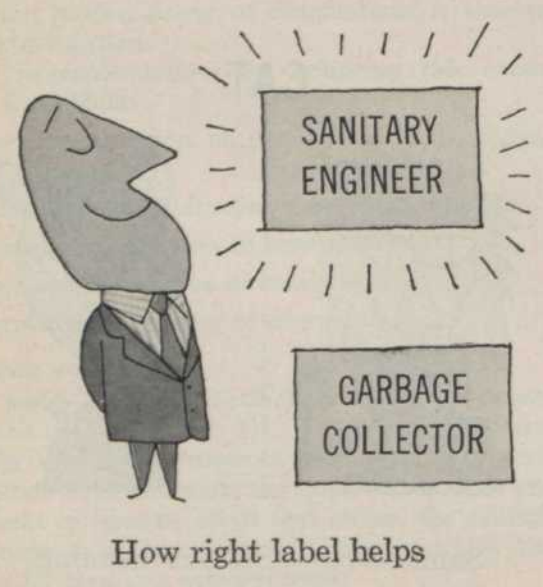
"Better finish it," she says, "while you can."

For her this has only one obvious connotation—the attendant who picks up dirty dishes will be along shortly and will expect to remove the patient's tray.

But the patient happens to be intensely worried about his condition. For him the only possible connotation of the aide's remark is that the whole staff knows he is not long for this world.

In a business situation such a failure to connect with your audience on the connotations of your words can result in total confusion. Suppose you promise a customer quick delivery. For you this connotes delivery within two months. For him it connotes delivery within two weeks. You probably lose a customer.

Remember that it is you who are doing the connoting, not the words. They are only the means by which you attempt to convey your meaning to your audience. Your audience is quite capable of connoting something else from your words. Never take for granted that your connotations and your audience's are identical.

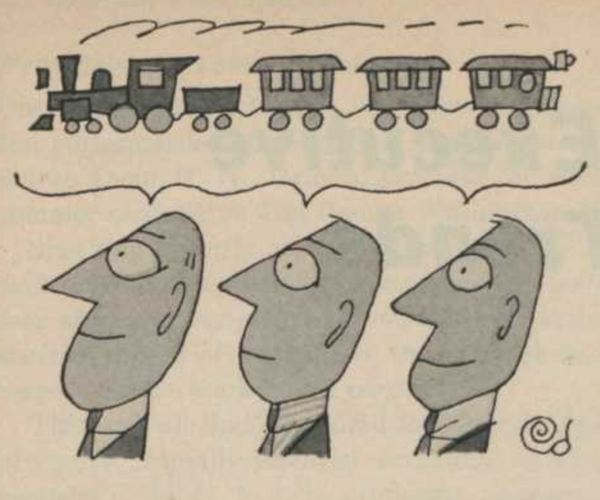


How right label helps

Using connotations to stimulate effort

Few humans reach adulthood without painfully learning how sadly inaccurate is that old childhood jingle: "Sticks and stones may break my bones but words will never hurt me."

An employe counselor reports the case of a stenog-



Wrong word may mean wrong track

rapher whose supervisor sent her to him. Once one of the firm's best secretaries, her work had started going bad for no apparent reason. The counselor learned that she had been divorced two years earlier but seemed to have made a satisfactory adjustment. Now, however, everything was going bad for her because of the connotations of the word "divorcee." Every man she met either dropped her as soon as he learned she was a divorcee or tried to take advantage of her. The connotations of that label were destroying her faith in herself and in humanity.

In business the effect of label connotations now is fairly well known. Many positions have been made more appealing simply by changing their titles. Calling a man a sanitary engineer instead of a garbage collector doesn't change his duties, but it does change the way he feels about them.

Removing negative connotations is only one side of the coin, however. Connotations also can be used with a positive, stimulating effect. Any father who has observed the effect of letting his son know that he trusts him can testify to this. If you repeatedly labeled a child "liar," he is likely to become one and to feel generally worthless. If you label him "truthful," it becomes difficult for him to lie.

This effect is by no means limited to children. One leading corporation executive applies the principle quite consciously in handling his staff. Because he considers a diversity of attitudes and viewpoints vitally important in the men around him, he concentrates on encouraging the dissimilarities among them.

His chief technique is the use of strongly connotative labels. One of his men is The Thinker, another The Doer, another Old Dollars-&-Cents, another The Court Jester and so on.

All the labels are applied with superficially humorous intent. This limits their effectiveness not at all. Neither does the fact that several of the men are well aware of the true purpose of the labels. Their effect is to stimulate each member of the staff to live up to his own label and all it connotes.

Sharpening awareness of connotations

It is easy to grasp the importance of connotations in some cases. Even amateur composers of classified ads automatically choose such terms as "rustic retreat" or "rural hideaway" in preference to plain "farm." And writers of menus seem to know instinctively that high-priced hamburger has to be listed as chopped steak.

Partly because such little exaggerations have become commonplace, some consider it sophisticated to insist on "calling a spade a spade." One implication of this phrase is that it is possible to use words for denotative purposes only and to skip the connotations. Actually, the habit of calling a spade a spade in itself connotes a great deal. Among other things it says, "see how honest and plain-spoken I am."

To attempt to ignore or to deprecate the connotations of words means, on the one hand, that you deprive yourself of vital communication tools. Using words with connotations which back up what you want the words to denote greatly reinforces the message you seek to communicate.

On the other hand, ignoring connotations often means that you use words connoting something which obscures what you seek to denote by them. The philosopher, Alfred North Whitehead, used to tell a story about a business friend which neatly demonstrates how this can happen.

Mr. Whitehead's friend, a factory owner, decided that it was unfair to pay overtime to his plant workers and not to his office staff. Accordingly, he told the office employes that they were to receive overtime pay at the same rate as the factory workers. They sent him a delegation which, with a great show of hurt dignity, asked that the offer be withdrawn. To them, overtime pay was for hourly workers only. Accepting it would mean loss of face. Later the owner achieved his purpose, and in the process greatly improved the morale of his salaried employes, by setting up for them a schedule of "bonuses based on extra duties."

If you are tempted to laugh at this reaction or to dismiss it as childish, consider the following: Someone offers you a cookie. The taste is unusual but seems pleasing. You ask what it is made of. The answer, given in a tone which convinces you that it is serious and not an attempt to tease you, is "ground grasshoppers."

The cookie will taste quite different after that, but the only change that has taken place is in the label, not in the cookie itself. The connotations of the new label profoundly affect the taste of the object, by changing the attitude we bring to the tasting.

This is the way all connotations work. They do not affect the objects to which we apply them. They affect the feelings of those who hear or read them.

—Robert Froman

REPRINTS *of "Make Words Fit the Job" may be obtained for 10 cents a copy or $7.00 per 100 postpaid from Nation's Business, 1615 H St. N.W., Washington 6, D. C. Please enclose remittance with order.*

Executive Trends

Top-job prospect best ever

Business is desperately short of qualified men to serve as its next generation of leaders.

Management consultant G. Lawton Johnson of Boyden Associates, New York, says that "never before has there been so keen and anxious a search for men to become company presidents or to join the uppermost echelon of vice presidents—men who are partners with the president in the molding of a company's broad policies and strategy."

Mr. Johnson blames the scarcity of such candidates on the failure of many firms to prepare successors for top-level vacancies created by company growth and retirement of key men. He says the increasingly complex conditions under which business operates make it essential that business choose for its high-level jobs men who are skilled professionals.

▶ Mr. Johnson points out that the men in demand today—and men whom business will need in the future—are those with "extraordinary skills and judgment developed in a rise through the ranks and through service with one, or several, first-rate companies."

Are you a man who can move up?

The fact that there is a great demand for top-echelon managers does not mean that there won't be fierce competition for jobs at that level.

Commenting on this, Mr. Johnson of Boyden Associates (see above) says that companies which have employed his firm to find executive talent seem to demand a pattern of qualities in the men they earmark for promotion.

Some of these qualities are of a surface nature—general appearance, alertness in conversation, warmth of handshake, even pleasing facial expression. Beyond these, however, are more critical qualities: orderliness of thinking, and a willingness to make a "reasonable sacrifice in one's personal life in the interest of the company."

▶ Another important consideration, according to Mr. Johnson, is whether or not there has been a pattern of steady advancement in the executive candidate's career. Are you in a dead-end in your company or on a main thoroughfare? Is your function one which will grow in importance? Are you stymied by being next in line behind an executive who is the same age as you are? Are you in an industry that's going to grow? These are important

questions to ask yourself, Mr. Johnson says, in appraising your prospects for future career advancement.

Prestige—a tool you can use

One of the most effective, but often overlooked, ways of getting top performance from employes is to use prestige motives, according to Dean B. H. Jarman, professor of education and dean of summer sessions at The George Washington University.

Speaking recently at the University of Michigan, Dean Jarman said that "no longer does management motivate employes through fear of loss in pay or loss of employment. Managers must now use positive means of motivation, including pride of membership and respect for the worker as a person."

This isn't all that's required for effective development of people, of course. Equally essential, according to Dean Jarman, is management's ability to help promising men attain their long-range leadership capability through realizable intermediate stages.

▶ "Two out of every three persons who lose their jobs are fired for one main reason," Dean Jarman says. The reason: Their inability to get along with their coworkers. "Personality and character traits, not skills and knowledge, largely determine an individual's success on the job. Human relations, therefore, should occupy a major portion of any training program."

Advantages of working at home

More and more executives are taking advantage of home offices for the work about seven out of 10 of them bring home at least once a week.

Besides efficiencies of having special work space, many managers are realizing possible tax benefits. Under the 1954 Revenue Code, a proportionate part of expenses of running a home can be deducted as business expenses when part of the home is used for legitimate business purposes. Furniture, furnishings and equipment used in this way can be depreciated, and part of the cost of other expenses such as heat and light might also be deductible.

The National Office Furniture Association says about 5 million business and professional men and women are potential office-in-home furnishers.

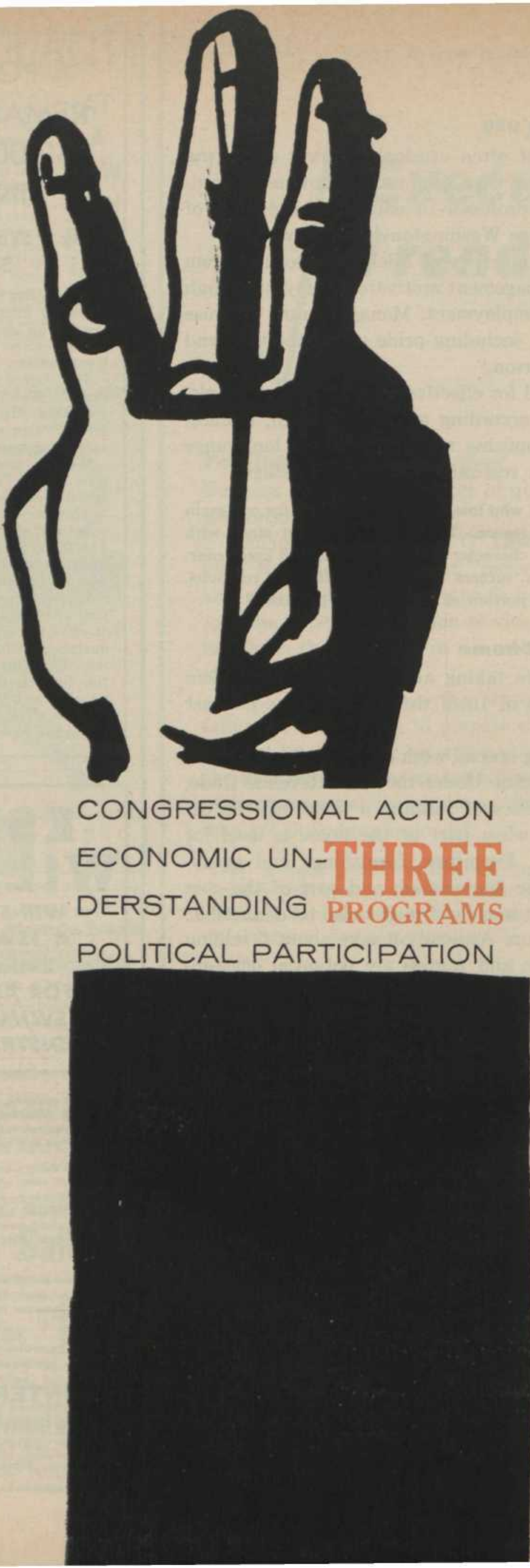
▶ NOFA President Melvin Levin envisions future at-home offices having two desks. One for the briefcase-toting businessman with night or week-end work and one for his home-managing spouse. He also hopefully sees the home of the future with a built-in office as standard equipment.

What worries managers

Businessmen participating in a NATION'S BUSINESS survey of the business outlook (see page 36) were asked to discuss their biggest anticipated managerial problems for the next 12 months.

Many of the replies indicate concern over the finding and development of effective management personnel. Feeding this concern are the pressures of competition and upward pressures on wages, which make increased productivity in the management and submanagement ranks not only desirable but mandatory if business is to continue to produce profits.

▶ Some of the survey replies show that the personnel headache is particularly acute in the sales field. Officials of banks and insurance companies seem to feel the need for good management talent even more than executives in other lines, and stress the need for developing future leaders now.



THREE PROGRAMS

CONGRESSIONAL ACTION

ECONOMIC UNDERSTANDING

POLITICAL PARTICIPATION

To help and encourage businessmen to be more responsible and more influential citizens, the National Chamber sponsors three major training and action programs.

These three programs are conducted by business firms, local chambers of commerce, trade associations and other groups.

The National Chamber promotes the programs through the work of its field staff and in other ways. The Chamber makes available all necessary informational materials for discussions and study—and makes sure these materials are timely and accurate.

I. CONGRESSIONAL ACTION PROGRAM — Designed to equip businessmen to express personal, persuasive views to Congress on issues of concern to business.

Under this program, local chambers and trade associations set up Congressional Action Committees.

Each Committee member assumes responsibility for keeping fully informed about national issues in one or more of eight categories—and for communicating his views to Congress. From the National Chamber, each Committee member receives a weekly Congressional Action Bulletin—also a series of Special Reports, and legislative issues booklets, dealing with the subjects in which he has indicated a particular interest.

II. ECONOMIC UNDERSTANDING PROGRAM — Designed to help businessmen create a better public understanding of free enterprise.

Under this program, business firms and local chambers set up a 17-week Economic Discussion Group to train businessmen to be more articulate spokesmen for private business.

Also, this program includes projects which help employers explain and interpret the profit-and-loss system to employees and to the public through films, employee publications, plant tours and Business-Education Days.

III. POLITICAL PARTICIPATION PROGRAM — Designed to show businessmen how to work effectively in a political party—how to select and nominate qualified candidates for public office, and how to get those candidates elected.

Under this program, firms, local chambers and other groups conduct an Action Course in Practical Politics—nine workshop meetings, covering every important phase of politics.

You will want to know more about these three important training and action programs—and how to put them in operation in your community. For full information, write:

CHAMBER OF COMMERCE OF THE UNITED STATES, WASHINGTON 6, D.C.

Russia's tax hoax

Soviet may soon reduce taxes by robbing Pyotr to pay Pavel

ANY COUNTRY'S ANNOUNCEMENT that it will abolish all direct taxes inevitably arouses the envy of taxpayers everywhere.

Soviet Premier Nikita Khrushchev has announced that the U.S.S.R. is going to do just that.

The tax-conscious American businessman, hearing such talk, might well wonder if the loquacious Soviet boss can really pull it off, or if he is just spouting more propaganda.

The answer is that Mr. Khrushchev can and probably soon will abolish direct taxes—and with little loss of revenue to the Soviet government. But also with little benefit to Soviet taxpayers.

Understanding why all this is so will help us grasp more fully the dangers of taking Russian reports of economic achievement and innovation at their face value.

Mr. Khrushchev gave as the main reason for his proposal the fact that the yield from direct taxes has declined until it now provides only eight per cent of the government's total revenue. Actually, direct tax abolition would involve no serious loss of income to the regime, since the income side of the state budget could easily be adjusted to operate without the revenues raised through direct taxation simply by boosting indirect taxes.

During the mid-course of Russia's first five-year plan, the communist party leaders began a search for a new type of tax that would "mobilize the maximum resources for the task of financing a forced rate of industrialization." This tax had to be large enough to compensate for the lack of a capital market at home as well as for a lack of good credit standing abroad. The only hidden reserve that could be tapped under the circumstances was the standard of living of the population.

Accordingly, the government in September, 1930, began to levy a special "tax on turnover" on all transactions involving the sale of commodities. Using for this purpose the Marxist definition by which only goods sold to the population are properly called commodities, the turnover tax was levied only on consumer goods. One major commodity in the producer's class—petroleum—was subject to this tax. The experiment proved a huge success. With the aid of the new, invisible tax, government receipts from excise taxes rose in 1931 from six to 12 billion rubles.

In due course, the government began to experiment with the tax rates, raising the levy on one commodity after another. The tax on bread, for example, went up from eight per cent in 1931 to 76 per cent in 1934. While the price paid, by stages, to the peasant for grain remained unchanged, the government raised the price of bread to the consumer from 12 to 50 kopeks per kilogram during this period.

By 1940, collections under this tax were nearly 10 times as large as in 1931—106 billion rubles as compared with 12 billion. Average wages increased only five-fold. Inevitably, too, the role of this tax in treasury receipts increased conspicuously. By 1940 it accounted for 58.8 per cent of total government revenue. In 1959, it is expected to yield more than 332 billion rubles, or 46 per cent of all planned budget receipts.

Function of the tax

The turnover tax also is employed as a device for subsidizing the state sector at the expense of the consumer sector of the economy.

It accomplishes two basic objectives:

First, because it is levied almost entirely on consumer articles, the tax raises the price of all goods bought by the population, on the average, by roughly 100 per cent above the economic price. By sopping up purchasing power at this greedy rate, it acts as a powerful brake on consumption, reducing the material and labor the government has to "waste" to produce goods of the consumer variety.

Second, though collected from the consumer sector, the tax does its creative work in the state sector.

Since the Soviet government operates both as a

single-monopoly economic enterprise and as the supreme political authority—producing, taxing, pricing, and distributing all goods in circulation—it does not have to show a profit on each individual product. Neither does it have to seek an economic return in full from any large group of products. All that is required is that the sum of the prices of all goods sold should recapture the cost of producing all goods, plus a given margin of profit for capital replacement and further expansion. Within this broad framework there is ample room to maneuver.

The government overprices the goods sold to the consumer by approximately the amount by which it wishes to underprice the goods it sells to itself—military hardware, fuels, metals, building materials, machinery, ships. This practice has made it possible to depress the share of consumer goods in total industrial output from 60 per cent in the late 1920's to less than 30 per cent now.

Massive bite of turnover tax

Soviet economists are not allowed to discuss in print the amount of tax currently collected from in-

Hidden excise taxes are built into the price of consumer items in Russia. But since different items carry different amounts of tax, the ruble has distorted value

When Russian consumer buys meat, fish or flour — 1 ruble = **6¢**

When he purchases butter, fruit or a suit of clothes — 1 ruble = **3¢**

If the Russian buys a new shirt or stockings — 1 ruble = **2¢**

In the state sector of the economy, however, the elastic Soviet ruble will stretch farther

When the Soviet government buys steel, coal or machinery — 1 ruble = **25¢**

RUSSIAN TAX
continued

dividual categories of goods. However, a few figures have leaked out.

Thus, when the Soviet citizen buys such articles as beef, butter, or laundry soap, the retail price he pays is 60 to 70 per cent tax. Other goods, such as sugar, salt, cigarets, or vodka, are covered by a tax as much as 70 to 88 per cent of the retail price.

Some articles sold to the consumer—including yard goods, shoes, and apparel—get off with a tax bite of only 40 to 55 per cent of the retail price. However, such articles are taxed twice, first upon emerging from the factory in the form of yarn, cloth, leather or whatever.

One more feature of this remarkable tax is worthy of note. Although called a tax on turnover, it does not, in fact, depend on the volume of goods actually turned over to the stores for distribution. First and foremost, the revenue the government will need is estimated. Whatever the figure, the turnover tax must cover it. If the volume of available goods in a particular year is unusually small, the rate of the tax is raised accordingly, behind the scenes.

The elastic ruble

The practice of injecting a heavy dose of excise tax into every article sold to consumers distorts the ruble as a yardstick of value.

When the Soviet worker buys a pound of meat, or fish, or flour, the ruble is worth as much as six cents in the United States. In the case of items like butter, sugar, fruits, the purchasing power of the ruble is only about three cents.

When he buys a shirt, or nylon stockings, his ruble will command the power of only two cents; in the case of a suit, about three cents. The purchasing power of a ruble buying a pair of shoes comes to four or five cents.

On the average, counting all the purchases he makes during the year, the Soviet consumer obtains from the ruble spent in the stores, according to one recent study of Soviet retail prices, the purchase power equivalent of 7.5 cents in the United States.

At this rate, the average wage-earner, who receives four rubles per working hour and spends 90 per cent of his money through the stores, earns the equivalent of $15 weekly.

The story is quite different in the

state sector. There, the ruble comes close to commanding the 25 cents' worth of purchasing power that the official rate of exchange claims for it. It takes only three times as many rubles as dollars to buy a tank. Similarly, the price which the government pays for a ton of steel, coal, cement, or machinery also comes close to the official rate of exchange. In this area, the ruble has a purchasing power equal to 20 to 30 cents.

National product redistributed

This double-standard currency inevitably creates all kinds of distortions.

For example, it is impossible to determine how much national income is created in each branch of production. Much depends on the form of profit-taking in the industry. Most of all, it would be unrealistic to use the ruble as a standard for measuring "value added" in the two main divisions of the economy, the state sector and the consumer sector.

The ruble used for reporting output does not represent the same amount of value produced in the two sectors.

Any attempt, therefore, to arrive at a realistic allocation of the national product must make an adjustment for the turnover tax. Specifically, the latter must be treated as a compensatory form of profit-taking.

This means that it must be shifted back where it belonged all along—to the state sector of the national product.

Adjusted in this manner, we get a pattern of product allocation in the U.S.S.R. in which, for example, the amount of resources devoted to investment accounts for 35 per cent of the total national product. Officially, the share of investment is reckoned at 25 per cent.

By any test of performance, the present painless system of extracting tax money from the economy has worked well for the rulers of the Soviet domain. So much so, that even Mr. Khrushchev seems to be bent upon leaving the basic scheme intact.

All that he proposes to do, in effect, is to add a further refinement. Instead of relying upon indirect taxes to the extent of 85 per cent, as is the case now, he proposes to make it 100 per cent. The slogan under which to carry out this refinement has already been fashioned. It will be promoted as the formal "abolition of all taxes."

—LEON M. HERMAN

YOU IN THE BOOM

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the effect on markets and costs is likely to be greater and more permanent.

The experience of the past five years shows how failure to hold down costs affects profits. Business as a whole rose from the second quarter of 1954 to the third quarter of 1957, but profits started to drop in the first quarter of 1956, some 15 months before the downturn in general business.

Profits usually have risen for a shorter period than the economy rises. They tend to drop for longer periods than does the economy. They do this in part because businessmen get careless about controlling costs in the early stages of the recovery. If costs had been held down enough so that profits could have been kept at the fourth quarter of 1955 levels during 1956 and 1957 when business still was rising, profits would have been about eight per cent higher in 1956 and 1957 than they were. If profits had risen proportionately with business they would have been about 10 per cent higher.

The time to begin to hold down costs in '60 and '61 is in 1959. If only half the rate of profit loss in '56 and '57 could be prevented in '60 and '61, the resulting increase in profits might approximate $4 billion a year.

Another area of preparation for the coming boom lies in the development of a long-range capital program. Any expanding business requires expanding capital. The end of a recession or the beginning of an upswing may provide a good time for adjusting the composition of the company's capital. New money can often be raised more cheaply in such a period.

The capital program developed from a long-range sales program should provide for the timing of increases in debt, possibly at the beginning of the upswing, and increases in equity capital, possibly later in the cycle, so that the company can be ready to take advantage of the periods which are most favorable for each type of financing.

The current upswing is raising incomes and changing living patterns. It is not just that average weekly factory earnings exceed $90, but also the fact that the proportion of families with higher incomes is rising. This will help change buying habits as the boom gathers force in the fall and winter.

Changes in income distribution, as well as longer vacations, and other developments, encourage changes in buying habits. Such changes become important during an upswing. Therefore, it is particularly important in 1959 that companies keep abreast of changing consumer desires.

Many businesses have depended for their success since World War II on continuous development and frequent introduction of new products. Planning and development of new products and services must be continuous, but full exploitation may sometimes be postponed in a boom.

The current upswing may be an exception. Consumers have above-average savings, and are enjoying record earnings. They can afford to be, and will be, choosy in what they buy and the price they pay. So more rapid than usual introduction of new products or models may be necessary for success in this upswing.

More careful pricing than usual will be needed, too. Consumers are well stocked and can afford to wait if they wish. They can shop for price as well as for quality and novelty.

This means that product development and improvement should proceed rapidly so that attractive offerings can be ready when the rise slows down. Part of the task of operating in an upswing is the responsibility of holding an ace or two past the end of the boom.

Who'll speak for you in Congress? Organized labor is making its biggest effort ever to elect friendly lawmakers. For an informed report turn to **Labor in Politics,** on page 31

These suggestions — long-range sales planning, capital and inventory programs geared to these plans, close attention to costs, new product development—are but the more important policies to review at the onset of the upswing. The early period of a boom provides opportunities for reviewing and modifying many policies. The recession may have shown weaknesses but provided few opportunities for change.

So why not review the experiences of 1958, and decide which might be avoidable in the next downturn if you act now?

Did you find that you were too dependent on one or a few customers? Did you have too little diversification? Did your products have too much cyclical swing in their markets? Were major shortcomings in management revealed? What other important shortcomings came to light that couldn't be handled during the recession but might be susceptible to attack now?

If you depended on too few purchasers during the recession, you had a problem hard to solve during the downturn. A recent analysis suggested this was involved in about 30 per cent of a group of company failures studied. As business picks up, it should become easier to develop additional outlets. This may not send sales up appreciably during the boom but it may at least protect them more during a downturn. Similarly, a period of rising demand may offer an opportunity to diversify, and to reduce the impact of cycles on sales.

These suggestions should benefit the entire economy as well as the companies using them. But are they likely to benefit the economy enough to make rigorous credit and possibly other controls unnecessary as the boom progresses?

There is a real possibility that the programing of capital outlays will result in smaller fluctuations in the future than in the past. Business outlays for producers' durables dropped by more than 22 per cent from the peak in 1957 to the low point in 1958. But expenditures in 1959 and '60 are shifting from outlays to expand capacity to outlays to cut cost, improve quality or otherwise affect existing equipment. Outlays for this purpose are less subject to dramatic cuts than are outlays for expanding capacity.

Pressure for outlays to help more efficient operation, or produce more attractive products, can increase with a recession rather than decrease. The chances seem reasonable, therefore, that business expenditures for fixed investment may not be cut as much if a new downswing develops as they were in 1958. The chances are good that the expansion in capacity will be less from 1958 to '61 than from '54 to '57 when outlays went up 40 per cent. The pressure for new capital is now smaller than in 1955. Fixed capital investment, therefore, may not create such heavy pressure on the money markets now as it did in 1955 and '56.

The prospects for better control

of inventories are less clear. There is some evidence that businessmen are beginning to realize that the economy as a whole is much more soundly based today than ever. They are familiar with the ability of the government to take contra-cyclical action as well as familiar with our automatic stabilizing mechanisms.

But another less familiar development is worth mentioning. An increasing proportion of our increasing income is going to nondurables, including food, clothing, gasoline and other items, and to services. In 1950, 15.6 per cent of personal consumption expenditures were for durable goods. In 1958 the proportion had dropped to 12.7 per cent. More than 87 per cent of consumer outlays is going for nondurables and services. These expenditures tend to be maintained in recessions.

Expenditures for nondurables dropped only about one per cent from the third quarter of 1957 to the low in the fourth quarter of 1957. By the second quarter of 1958, expenditures in constant dollars for nondurable goods were at a higher rate than they had been even at the peak. Outlays for services were higher at the bottom of the recession than at the peak in 1957.

As increasing proportions of personal expenditures go for nondurables and services, employment becomes increasingly stable. That, too, will tend to stabilize purchases, so there will be decreasing pressures on business from consumers.

Also, a much larger proportion of funds used for fixed investment and for inventories are coming from internal corporate sources. This means that companies are making smaller demands on financial institutions for their expansion. Once the current federal deficit is brought under control, this, too, may mean less pressure on financial markets. Rigorous credit controls such as were used in 1956-57 may not be needed in 1960-61.

The economy is expanding in a more healthy fashion this year than it did in 1955. There is reason to hope that, with good programing, this boom can be continued, that only modest credit restraints may be needed, and that the downturn, when and if it comes, may be moderate.—ROBINSON NEWCOMB

REPRINTS *of "Plan Your Part in the Boom" may be obtained for 10 cents a copy or $7.00 per 100 postpaid from Nation's Business, 1615 H Street N.W., Washington 6, D. C. Please enclose remittance.*

DEBATE OVER HEALTH INSURANCE AFFECTS YOU

Every business has a stake in the problem of health care for the aged

PRIVATE INDUSTRY is moving toward a solution of the problem of protecting the aged against the costs of accident and disease.

This progress is being made in the face of a growing threat of intrusion by the federal government into the field of health insurance.

Almost no insurance coverage existed 20 years ago for our older citizens. By 1952 only 26 per cent were protected by medical, surgical or hospitalization plans. Today more than 40 per cent of people 65 years of age and older have some form of health insurance.

By 1975 more than 90 per cent of older persons needing and wanting protection will be covered by private health plans, the Health Insurance Association of America estimates.

Despite these rapid strides by the insurance industry, efforts to extend social security benefits to cover health requirements have been renewed in the current session of Congress.

Rep. Aime J. Forand of Rhode Island has introduced a bill which would amend the Social Security Act to meet surgical expenses and pay for hospitalization and nursing home care for persons eligible for retirement benefits. Representative Forand is the second-ranking Democrat on the House Ways and Means Committee, which has jurisdiction over his bill.

A similar measure, which would not include surgical care, has been introduced in the Senate by Sen. Hubert H. Humphrey, Minnesota Democrat.

The cost of such an extension of benefits would exceed $1 billion for the first year, according to a report submitted to the Ways and Means Committee by the Department of Health, Education and Welfare, which administers the social security program. Insurance actuaries, however, place the first-year estimate at twice that figure. The cost would increase in later years.

Convinced that it can meet the health insurance needs of persons 65 years of age and older, the health insurance industry vigorously opposes the proposed legislation. Although the number of aged persons is continually growing, insurance officials point out that the number of aged persons with health insurance is increasing at a much faster rate.

The portion of our population 65 years of age and older rose 13 per cent from 1952 to 1956, a study by HEW shows. The number of persons in that age group covered by health insurance climbed 56 per cent during the same period. Today there are 15 million people who are 65 or older, and a total of 21 million is predicted for 1975.

Acutely aware of the danger posed by possible federal intervention, officials of the Health Insurance Association are urging member companies to expand even further their efforts to offer coverage for the aged.

Speaking at the recent annual meeting of the association in Philadelphia, its president, Travis T. Wallace, emphasized that "health insurance has become a public necessity, and this has tremendous implications for our business.

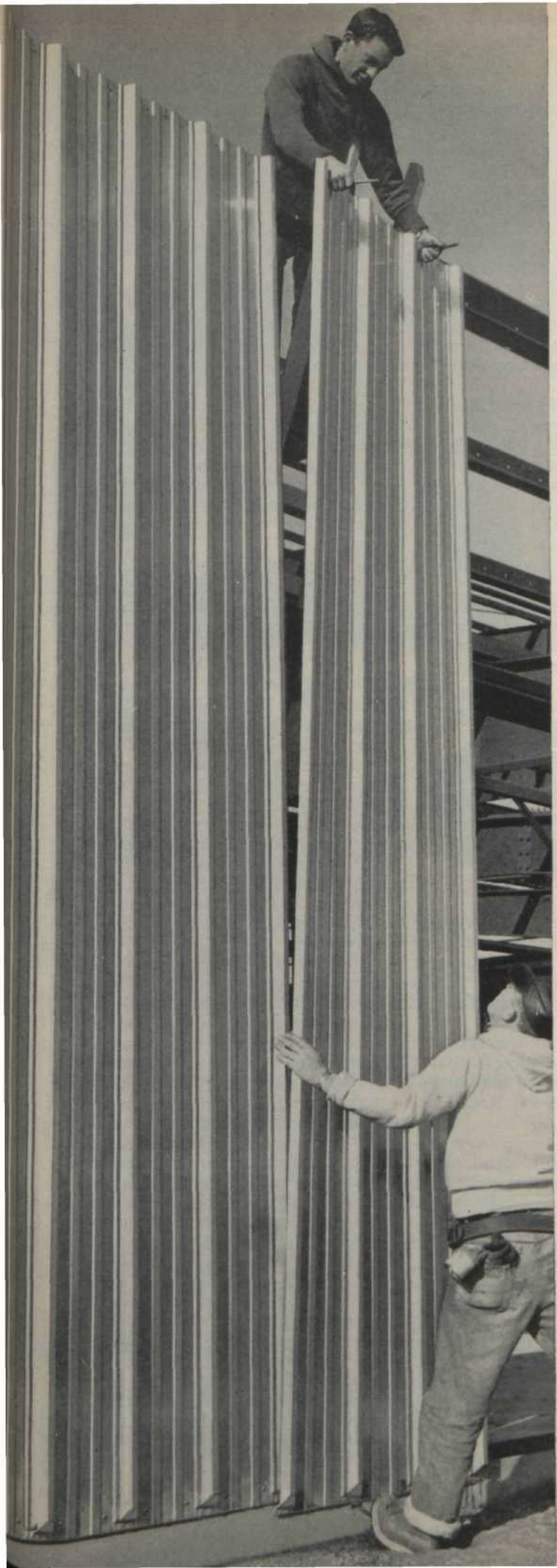
"If we don't do the job, it can be said with certainty the government will take over our business. Today our business is faced with its greatest challenge and its greatest opportunity."

Describing the proposed legislation as "very harmful, and perhaps destructive," he warned: "If health care is priced out of the reach of too many people, the government will, and must, step in."

Health insurance firms are following eight principal lines of approach in providing coverage for the aged. They are:

- New issuance of individual policies to older persons.
- New issuance of insurance to older people who belong to such groups as organizations for the aged and for retired people.
- Insurance coverage which becomes paid up at age 65, enabling the policyholder to meet the cost during his working years.
- Continuation into the later years of individual policies bought at younger ages.
- Continuation of insurance on older active workers who are under group plans.
- Continuation of group insurance for workers and their dependents after retirement, usually with part or all of the premium being paid by the employer.
- Continuation on an individual basis of coverage originally provided by group insurance.
- Issuance of insurance to broad classes of people who are physically impaired.

Within the past six months, four companies have utilized a mass-enrollment technique in issuing health insurance for persons 65 or over. With programs developed either regionally or nationally, enrollment



HEALTH INSURANCE
continued

of individuals is solicited during a limited period and policies are then handled on a group basis.

More than 85 companies throughout the country are now offering insurance which can be purchased at the younger ages and retained for life. Several companies have marketed policies which, for a higher premium, become paid up at age 65. Approximately 40 firms now insure people who have a physical impairment which would have barred them from all health insurance a few years ago. No age limit is placed on initial group enrollment by 65 per cent of the country's Blue Shield plans.

As an example of policies now available for the aged, one company offers benefits of up to 60 days in a hospital or nursing home for each accident or sickness. Payments for room and board amount to $10 daily for a hospital and $5 for a nursing home. The policy pays 80 per cent of additional hospital expenses up to $1,000, after the first $100, and surgical payments up to $225. The yearly premium is $100, no physical examination is required and the policy cannot be canceled because of claims against it. After six months the policy covers health conditions which existed before it was issued. Policies with more generous benefits are available at higher premiums.

The health insurance industry firmly believes that it can provide adequate health protection for all aged persons of average means who want it, according to a Health Insurance Association spokesman. People who are "medically indigent"—unable to meet any medical expense whatever—will continue to obtain treatment through charity and government relief programs, it is anticipated.

Pressed by their increasing number of retired members, labor unions are fervently supporting the Forand bill. Charging that "proposals advanced by organized medicine and the commercial insurance industry are grossly inadequate and unfair to older people," the AFL-CIO Executive Council has declared that "the high cost of medical services should no longer be permitted to bar older people and widows from required health care."

Supporters of the Forand bill contend that nothing short of the approach through social security can provide adequate medical protection for the aged. Private health plans will prove too expensive for many old people, they maintain, because the aged constitute a high-risk, high-cost group.

The Forand bill would provide an estimated 16.2 million persons eligible for social security retirement benefits with up to 60 days hospitalization yearly. For nursing home care after hospitalization, payment would be made up to a combined total of 120 days confinement in a hospital or nursing home in any one year. All customary hospital and nursing home services would be covered.

The bill also would cover the cost of all necessary surgery.

The social security tax would be raised $\frac{1}{4}$ per cent each for employes and employers and $\frac{3}{8}$ per cent for the self-employed. It is believed, however, on the basis of the HEW report, that another tax increase would be required later to finance the program.

Representative Forand's proposal is criticized by its opponents as further extending the already long arm of federal government and adding

another sizable item to the federal budget. Many hold that passage of the bill would be merely the first step in legislating federal health care for all citizens, regardless of age.

Another aspect of the measure that its opponents deplore is that it violates the original "floor-of-protection" concept of the Social Security Act.

It would graft a health care program onto the present principle of cash payments to retired or disabled persons and their dependents and survivors.

The United States Chamber of Commerce opposes such proposals for compulsory medical and hospital insurance "because their adoption would lower the high standards of medical care in the United States."

Development of voluntary health insurance to its full capacity is urged by the Chamber, which believes that medical care for the indigent is the responsibility of local communities. The American Medical Association is another strong opponent of the bill. The AMA characterizes it as "an attempt to solve a complicated health problem by political means rather than through established medical resources."

It predicts that the measure would eventually destroy private health insurance and the Blue Cross-Blue Shield plans.

"Ultimately America would have nationalized hospitals and medical care for everyone," the medical association warns.

AMA officials point out that the aged, for the most part, do not need short stays in general hospitals. Instead they require less costly and improved chronic illness and nursing home facilities and better home care. They add that the medical needs of old people are primarily nonsurgical.

Another legislative proposal which would involve the federal government in health care has been sidetracked while debate centers on the Forand bill. In modern versions of the old Wagner-Murray-Dingell bills, Sen. James E. Murray (D.-Mont.) and Rep. John D. Dingell (D.-Mich.) have introduced measures providing for a National Health Insurance Act. These bills would provide every citizen not already covered by military or other government health programs with hospital, surgical and medical care.

Proponents of federal health coverage, however, have shifted their emphasis to the milder Forand bill, which they feel has a better chance of passage.

Both sides are watching with interest the government hospitalization program which has been established in seven of the 10 Canadian provinces. Surgeons' fees are not included under the plan, but costs of hospitalization for an unlimited period and hospital services are paid by the government.

It is estimated that the total cost of hospital insurance and new hospital construction in Canada will exceed $3 billion during the next five years. In contrast, the Canadian national budget has never risen above $5.4 billion in any one year.

Although it appears that action on the Forand and Humphrey bills is not likely in this session of Congress, pressure from both sides in the controversy is growing. The measures promise to provoke hot debate in 1960, when many congressmen may yield to the traditional election year urge to extend social security benefits. END

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ASK QUESTIONS

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was whether observers in those two places noted on clocks that the events occurred at the same time. Until he tackled the question, no one had defined "simultaneity" in terms of actual clock readings by actual observers. When he went on to inquire just how the observers would compare their clock readings, he revolutionized physics.

Probability

A great many business questions involve predictions of the future. As Dr. Rudolf Carnap, one of the world's leading logicians and an authority on the study of probability, points out, we can never be certain about future events but we form our expectations of them in accordance with past experience.

Like Dr. Bridgman's definition of the objective meaning of a question, this may seem obvious when you think of it. But the desire for certainty is one form of the desire for security. It can have great emotional power. In practical situations it often proves easy to forget that certainty is not attainable. When this happens, the questions we ask can produce only false answers or none.

The quality control manager of a food processing firm is considering a new procedure for sampling products at an early stage of the process. The new method requires a sizable investment. To make the decision he wants to know how much spoilage the new procedure will avert. His sources of information on this point include, in addition to his own observations, the experience of several subordinates.

He knows that if the proposed procedure succeeds, it will be a big boost for his career. If it fails to make savings justifying the investment, it may ruin his chances of rising further.

He calls in his subordinates one by one and asks: "How much spoilage will the new procedure avert?"

He adds, "I want no guesses on this. Give me exact figures."

This buck-passing attempt can result only in trouble. Each of the men has different responsibilities. None of them has the time, authority or experience to make as many or as widely varied observations as the boss can. But each sees the problem from a different angle and could, if he were asked, contribute an estimate based on his own first-hand knowledge. To ask him to predict with certainty is to submit him to both intolerable and unproductive pressure.

The proper question is: "What evidence is available to you about the amount of spoilage caused by lack of this procedure? On the basis of that evidence, what is the most precise estimate you can make about the amount that the procedure will save?"

As Dr. Carnap demonstrates, the two terms—*evidence* and *estimate*—are the core of all useful questions about future events. Sometimes only a little evidence is available, sometimes a great deal. In either case the evidence can only provide the basis for an estimate.

Increasing the evidence when possible usually will increase the probability of the estimate. But, to ask questions which will produce new evidence, it is necessary to make preliminary estimates on the basis of evidence already available. Such preliminary estimates or hypotheses are the chief stock-in-trade, not only of questions about the future, but of all successful reasoning. To be fully utilized, however, they must be used with understanding of their nature and purpose.

For instance, sales of one product of an electrical appliance firm show a sudden rise in one selling area. The vice president in charge of sales naturally wants to get the same results elsewhere.

He summons all the regional sales managers to the main office, warmly praises Joe, sales manager of the region where the rise occurred, and asks Joe to "tell us how you did it."

Joe is on the spot. The sales increase took him by surprise, and he has no idea what brought it about. But, being human, he also has no desire to spurn the credit. He blurts out an explanation about "getting out in the field," "jacking up the salesmen" and so on. The vice president adjures the others to go and do likewise. But no similar sales increases result in the other regions.

Now comes the dangerous stage. On the basis of the evidence of the sales increase in the one region the vice president had hypothesized that Joe was responsible. This hypothesis was a good starting point for seeking further evidence by questioning Joe. However, the vice president has treated it as a full explanation. The danger is that he now will draw the further conclusion that the other regional sales managers are falling down on their jobs. This easily could disrupt his whole department.

Fortunately, he sees this danger and is able to backtrack to his original estimate of the evidence. He asks Joe for a detailed report on changes in his methods which might have caused the sales increase. The report reveals no substantial differences between Joe's procedures and those of the other regional sales managers.

Naturally, the vice president still wants to duplicate the sales increase elsewhere. He goes over reports of new developments from the advertising, consumer research and other departments seeking a new hypothesis. A report on competitors' activities mentions that, in Joe's region, a child received a serious shock from a competitor's similar electrical product. Some local newspapers played up the story.

This suggests a quite different estimate of the situation. The vice president orders a few discreet inquiries among retail dealers. He learns that at about the time Joe's sales increased the competitor's sales dropped.

This is not only a high degree of confirmation for the new hypothesis. It also suggests a quite different evaluation of Joe's work. At the very least he clearly ought to keep closer track of his competition.

Note, however, that the confirmation of the new hypothesis is not absolute. Other factors may have contributed to Joe's sales increase and to the competitor's loss. But, since the vice president cannot devote all his time to the problem, he has sufficient confirmation to consider it solved unless and until new evidence turns up.

It is essential to ask enough questions to produce a reasonable degree of confirmation of an hypothesis. It is merely frustrating to seek certainty.

Constraint

Dr. Bridgman's ideas on questioning are those of a physical scientist, and Dr. Carnap's are those of a logician. Social scientists have studied the problem from another angle of great importance in practical affairs:

How does the influence of others determine our ideas, opinions and feelings? Humans are social creatures. Even the most misanthropic hermit owes to society the language in which he expresses his misanthropy. Because we are mutually dependent, most of us are glad to make mutual concessions and to suppress our individual wishes to some extent.

At Harvard's Laboratory of Social

Relations a study under the direction of Dr. Solomon E. Asch probed the effects of group pressure on individual judgment.

The results of the study are of profound importance to business executives who depend on subordinates for good judgment.

In its basic form the study consisted simply of showing groups of six or seven persons two cards at a time. One line was inscribed on one card, three lines on the other. The single line on the first card was the same length as one of the three lines on the second card. The other two lines were noticeably different in length.

Twelve different sets of cards were shown, one set at a time. Members of the group were asked to say in turn which of the three lines was closest in length to the single line. In each trial all but one of the group were coached in advance to pick the right line the first three times and one of the wrong lines the remaining nine times. The uncoached member, the real subject of the experiment, was seated next to last in the row. Each time he had to tell his choice of lines after most of the others had spoken.

Under these circumstances only about one quarter of the 123 tested consistently held out for the evidence of their own senses. Even the hold-outs showed signs of discomfort because of their repeated disagreements with the majority. Some subjects went along with the majority nearly all the time. Final tabulation showed that the subjects as a whole had gone along with the majority's deliberately incorrect judgments on 36.8 per cent of the choices.

One important point this makes for executives concerns the practice of assigning groups to solve problems. Clearly, to ask a question of a group is to risk that the group's conscious or unconscious bias will inhibit the power of observation and thought of some of its members. This can result in such enthusiastic endorsement of a wrong answer that it becomes difficult or impossible to catch the error later.

For example, the head of a company assigns a group of his accountants and engineers to study electronic data processing methods and equipment. The questions he proposes are: Should we adopt one of these systems? If so, which one?

At the beginning of the study several members of the group feel uncertain of their understanding of the whole subject of data processing. In the course of the study a sales engineer representing one firm

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ASK QUESTIONS

continued

makes a vivid presentation which gives them a firm grasp of the subject. Naturally, they are strongly impressed with his product. At the end of the study the group decides in favor of adopting it.

The company head questions the group as a whole about the decision. One member observed that another maker of the equipment offered a considerably more detailed program for training operators of his system after its installation. He wondered whether the system chosen included sufficient training.

He felt, though, that his doubts were unimportant and that mentioning them would make him seem needlessly carping. When the system was installed, however, the training of operators proved a costly headache.

The company head probably could have gotten the frank opinion of each group member and a full statement of all pertinent observations by questioning each one separately. Awareness of the inhibiting effect of group pressure on individual judgment should have led him to such a procedure. Indeed, by questioning only the group as a whole he submitted himself to a certain degree of pressure to accept its decision.

This brings up the other important point implicit in the results of Dr. Asch's experiments. Suppose that the one doubtful member had insisted on his seemingly minor reservation in the face of the unanimity of the others. This would shift the full force of the group pressure to the company head. That pressure would tend to cause him to dismiss the objection with little thought.

The point is that, when any member of a group disagrees with the others, even about a matter of observable fact, the dissenter's view is worth attention. Only a strong motive makes it possible to disagree with unanimous colleagues.

The best practice, then, is to address questions to individuals rather than groups whenever possible. When you must address them to groups, give full consideration to dissenters. END

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THE EIGHTY-SIXTH CONGRESS will soon end its first session with more than 300 bills of all kinds passed.

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The Eighty-sixth leaves a backwash of disappointment because it has accomplished so little. We immortalize the other.

Both congressmen and the people may ponder this to advantage.

The Congress of 1776 dared tackle its big problem and do what was best for the country. It knew that King George III, if he could, would show his displeasure with sharp finality. It knew the Tories would object, and many Tories had station and power. It knew that the people themselves were not too clear on the issues or on what was needed. It knew that its action would mean insecurity, danger, and hardship for some. Still it had courage to act.

The Eighty-sixth Congress so far has shown no such courage. Analysts suggest that it is delaying intended major actions until 1960 so that voters will have them freshly in mind when they go to the polls—reasoning which suggests that the intention is to do nothing worth remembering from one year to the next.

Conceding that no action by this Congress might merit commemoration by a new national holiday does not remove the obligation that important issues should be faced and decided.

Firm action on governmental solvency, on the rights of working people, for a sound agriculture could contribute much to our future greatness.

The opportunity for a vital congressional contribution to history is not lacking.

What may be lacking is the inspiration to make this contribution.

In adopting the Declaration of Independence, the Congress of 1776 was able to act with the assurance that most people at home and in "the candid world" accepted as self-evident man's right to "life, liberty and the pursuit of happiness." It based its case and its hope of support on the iniquity of measures that transgressed these rights.

The Eighty-sixth Congress may be pardoned for wondering if it could count on similar support in acting on today's vital issues.

Certainly in the world at large many peoples have shown themselves willing to place their lives and liberty in the hands of despots.

Even at home more and more groups are insisting that they cannot pursue happiness successfully unless the government joins them in the chase.

Because these groups are organized they are capable of clamor far exceeding their potency.

They have thus been able to guide Congress toward measures which aided them but sapped the country's strength. Often these groups have gained their ends with little opposition.

Today a reawakening of citizenship is making their task more difficult. The American people are assuring congressmen that they still have the virtues that made them great.

Four score and seven years after the signing of the Declaration of Independence, July 4 was again in the news as two spent armies limped away from the greatest battle of the War Between the States.

A few months later an historic document was added to the literature of national patriotism.

At the consecration of the National Cemetery at Gettysburg, Abraham Lincoln said: "It is rather for us to be here dedicated to the great task remaining before us—"

Now, as when Lincoln spoke, our national future is in jeopardy. Fortunately, businessmen and others who put country before self are again dedicating themselves to the task before us. Their new interest in political affairs can provide the inspiration for courageous action that seems to have been lacking.

The Eighty-sixth may yet accept its opportunity to be a great Congress.

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